Reading the 11th edition of The Wealth Report and looking ahead to the rest of 2017, there is no doubt that the world is at a crossroads. As the report enters its second decade, the global milestones of 2017 will include the first year of Donald Trump’s presidency, the opening overtures of the UK’s Brexit negotiations, pivotal German and French elections and a critical succession of power in China. All have the potential to be as far reaching and influential on wealth creation and wealth flows as the global financial crisis, which defined the first decade of The Wealth Report.

In this time of rapid change and volatility, Knight Frank remains independent and committed to matching people and property perfectly, identifying and understanding residential and commercial property opportunities in key global markets, and working increasingly closely with our clients, both new and long-standing. To achieve this, we have three unwavering points of focus:

• Market-leading research, providing our clients with the deepest insight
• An industry-leading technology platform, keeping our clients informed and enabling them to transact efficiently
• A total commitment to outstanding client service, delivered by the best professionals.

Binding together these strands of our DNA is an ever growing network. Last year, in response to client demand, we opened a new office in the Philippines and further offices in London, Germany and the Alps, as well as re-establishing an exceptional team in Shanghai. Our new Family Office initiative is driven by our clients’ growing emphasis on wealth preservation as much as wealth creation. For this audience in particular, this report is essential as it delivers insight and advice not just for the coming year, but for the next decade. For those readers who have yet to work with us, The Wealth Report offers an insight into the thought leadership that underpins the service provided by our transactional, consultancy, investment and valuation teams, based in 413 offices in 60 countries around the world.

I hope that you find the report illuminating and thought provoking. For some, it will raise as many questions and possibilities as it answers. Do please get in touch so that we can help you address any requirements or challenges you may have.

The Wealth Report will be updated over the coming months as we pass through the changing landscape of 2017. It promises to be a fast moving year and we would be delighted to work with you to guide you through it.
The Wealth Report

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From the editor

From geopolitical shifts to luxury spending trends, The Wealth Report 2017 brings together the latest intelligence and the sharpest insights into the issues that matter most to the world’s wealthiest people.

THE BIG PICTURE AND THE DETAIL

Few people read a report from start to finish; but if you do opt to begin at the beginning, you will find that The Wealth Report follows a clear narrative journey. We kick off with our Global Wealth Trends section, looking at the big political and economic issues driving wealth creation around the world, including a pertinent essay by Liam Bailey, our Global Head of Research, on the growing efforts of governments to control and track the movement of wealth around the world. Following that, our Property Trends section, new colour-coded so you can flick straight to it, looks at the performance of the property markets we call home or invest in. And finally our glossy Luxury Spending Trends chapter focuses on the finer things in life like art, cars and boats, including a feature on the reasons we like to own them.

EATING THE WEALTH REPORT IS ALWAYS AN INTERESTING JOURNEY. IDEAS THAT SEEMED TIMELY WHEN WE FIRST SET OUT TO PLAN THE CONTENT ARE OFTEN OVERTAKEN BY EVENTS AND, MUCH TO THE CHAGrin of our long-suffering design teams, we find ourselves updating articles hours before the print deadline to ensure they are as relevant as possible to our readers.


THE EDITOR, THE WEALTH REPORT

ANDREW SHIRLEY

THOUGHT-PROVOKING CONTRIBUTORS

Although The Wealth Report is underpinned by our own expertise, we also like to share thought-provoking perspectives from leading industry commentators and influential UHNWIs – a certain Donald J Trump featured in 2008 – and the 2017 edition is no exception. A number of our contributors have recently published successful books in the light of recent events, both The Tyranny of Wealth by Parag Khanna (page 20) and Superpower: Three Choices for America’s Role in the World by Ian Bremmer are looking like particularly timely reads. I was lucky enough to get an hour of Dr Bremmer’s time recently to discuss his views on the big political risks facing the world, read the interview on page 6 or watch video content at wealthreport.com.

UNIQUE UHNWI INSIGHT

Our annual Attitudes Survey, which this year is based on responses from almost 90% of the world’s leading private bankers and wealth advisors, lies at the heart of The Wealth Report and offers a unique perspective on the investment decisions and lifestyle choices of the world’s wealthiest individuals. The survey’s findings are featured throughout the report and are also broken down on a regional basis in the DataBank section (page 61). On page 24 we include a fascinating focus on trends in private aviation, education and philanthropy. Swedish businessman Percy Barnevik’s approach to successful philanthropy, via his charity IYH and Hand International, will be of particular interest to those looking to maximise the impact of their philanthropic endeavours.

PRIME PROPERTY MARKET EXPERTISE

Although the range and depth of content featured in The Wealth Report clearly highlights that Knight Frank understands not just the property needs of its clients, but also their wider interests and aspirations, property remains the bedrock of the report. The PIRI 100, which really emphasises the extent of our global expertise, tracks the performance of the world’s leading cities, sun and ski luxury property markets and it is always fascinating to see which locations are at the top and bottom of the table. I don’t want to spoil the surprise, but Asian cities dominate the top end of the rankings this year. To find out why and see the full results, turn to page 30.
In our keynote interview, Ian Bremmer, best-selling author and head of one of the world’s leading political risk consultancies, Eurasia Group, talks exclusively with The Wealth Report about the challenges facing the world in 2017 – and introduces many of the themes that recur throughout the report.

ANDREW SHIRLEY
EDITOR, THE WEALTH REPORT

Risk monitor

From this day forward, a new vision will govern this land. From this day forward, it’s going to be only America first.” With these two short, yet immensely symbolic, sentences, spoken as part of his inauguration address in Washington DC on 20 January 2017, America’s 45th President Donald Trump formally called time on seven decades of interventionist US foreign policy. Seven decades that since the Second World War have seen the world’s most powerful nation attempt to wield its influence to impart its own values on the rest of the globe.

While Mr Trump’s supporters welcomed him as pledge to make America great again, to rebuild it from within and focus on addressing their own domestic woes, many other Americans were more nervous about the future. Across the Atlantic, speaking at The World Economic Forum in Davos, Switzerland, Ian Bremmer, founder and President of Eurasia Group restated his brief obituary: “Pax Americana is dead.”

It comes as little surprise to hear him say this. A couple of weeks earlier in his office on the 15th floor of a building on Fifth Avenue in Manhattan’s fashionable Flatiron district, Dr Bremmer had told me why he thinks the death of what he calls “Indispensable America” and the nation’s rebirth in the shape of “Independent America” is bad news for the world.

So bad, potentially, that it may mean the US’s eagerly awaited annual list of the 10 biggest geopolitical risks currently facing the world. Top Risks 2017 was released a few days before our meeting, and Dr Bremmer had spent most of the week touring New York’s TV studios explaining that choice and why, when combined with Eurasia’s other risks, in particular China’s failure to overtake 18,000 and a weakened Angela Merkel less able to hold Europe together (Risk 8), he thinks we are entering what he describes as a “geopolitical recession.” “I think I’m a pretty optimistic guy, but 2017 is the most significant year for political risk since World War Two,” he warns.

A quick scan of the numerous gruff and grinning photographs lining the walls and shelves of his office gives some clue as to why he so values the 70-year era of American exceptionalism and lament its passing. Many feature a fresh-faced Dr Bremmer with leaders of the ex-Soviet republics. His first trip abroad as a young man was to Russia and far from the closed, inward-looking society he expected to find, he discovered a generation of young people going outwards, inspired by the freedoms and culture of the US. What followed were the collapse of the Soviet Union and the fall of the Berlin Wall.

Without an America willing to taking the lead, many of the bonds that maintain global stability, such as agreements covering trade, the environment and defence, will weaken or fall apart, says Dr Bremmer. “You are so eroding the trust between major governments, you are so eroding the guardrails provided by the multilateral institutions and architecture that the Americans have set up, that when crises inevitably occur the potential for them to escalate quickly or unwisely is actually much more significant.”

Potential flashpoints

The list of places where such flashpoints could occur around the world is worryingly long. Turkey (Risk 8) makes it into Eurasia’s top 10 for the second year running, but the fact that last year China’s Communist party is holding its 19th National Congress, which will thrash out the details of the country’s leadership succession, makes parts of Asia, including debut entrant North Korea (Risk 9), particularly volatile, Dr Bremmer says.

“Trump’s new appointees on trade make it very clear that his hawkish line on China is something that is going to continue, but he’s keeping in mind that this is possibly the single worst time for the US to try this approach. If ever there was a year when Xi Jinping was going to be maximally unwilling to show weaknesses, or soften or restrain in response to a perceived slight, it would be this year. He has got to be seen as tough, unyielding and uncompromising.”

However, he concedes, it is possible that Trump’s unorthodox approach could succeed where Barack Obama’s foreign policy failed, and help to establish a more stable world order. “We could end up with a tit-for-tat trade war that could seriously hurt both economies in 2017. Lead to military confrontations, see the Japanese take a big hit in trade and tourism and the South Koreans, with a new government from the liberal opposition, flip towards Beijing.

But then Xi Jinping has his successful leadership transition and Trump has his Jesus moment – ‘Wow, the Chinese really hit me and I need to do a new deal’ – things could look very different. Trump, like Nixon, could end up doing the China deal that would seriously hurt both economies in 2017. Lead to military confrontations, see the Japanese take a big hit in trade and tourism and the South Koreans, with a new government from the liberal opposition, flip towards Beijing.”

The other big alpha male of global politics, Vladimir Putin, doesn’t explicitly make it into the Eurasia top 10, but he certainly going to be part of the mix, ready to take advantage of the power vacuum created by America’s unwillingness to lead, and of ongoing political and economic discord within Europe. Having this time last year unequivocally stated that Donald Trump would not become the US president, Dr Bremmer is understandably not ruling out a victory by the right-wing Marine Le Pen in this year’s French presidential elections. “Independent America leaves Putin with a lot of running room,” he says.
Technology, in the form of energy, connectivity or automation, as a theme that also resonance frequently in Dr Bremmer’s commentaries, sometimes as an opportunity – “technology has helped lift over a billion people out of poverty” – but often as a risk. Automation, for example, is now a far bigger threat to blue-collar jobs in the US than globalisation, he believes.

As well as tussling between the White House and Silicon Valley (Risk 7), he also sees a number of fostering technology issues potentially colliding in the Middle East, with worrying implications for the stability of the region (Risk 5). “The first billion people that had access to the internet were wealth elites in the developed world and emerging markets that were largely aligned with the status quo,” he says. “But when you actually start looking up the global risk rank and list a lot of people are very concerned. That’s particularly true in the Middle East.”

That disconnect is increasingly being borne out with something more virulent by the spread of partisan or extremist news and social media outlets across the web that allow left or right-wing consumers to only listen to the points of view they hold themselves, says Bremmer. “That doesn’t matter in the US because of theels, they’re tribal versus tribe and it’s ripping those countries apart.”

“Something revolution of the past five years has also severely affected the ability of Middle Eastern governments to use oil revenues to uphold the identities of their citizens, adds Dr Bremmer. ‘Suddenly, Saudi Arabia wasn’t the swing producer anymore. It was America. New technology destroyed the social contract in the Middle East.’

“When you put those things together, you realise that it’s not just about the borders that were set up by the Europeans but don’t align with historic notions of future pathways for their children. Those are the questions that lives, are they able to think of themselves as productive and think of what kind of society do they want to live in? They need to think more about that, frankly. That should be the principal concern that they have.”

Despite all this, Dr Bremmer isn’t all beards and宽ou for the outlook for UHNWIs in 2017, particularly those living in the US. Ironically, while an Independent America may be a big risk to the world, it could be good news for domestic wealth creation in the short term at least.

“Certainly, if you look at the orientation of Trump’s cabinet appointments it appears to be a safer bet that you’re going to see less regulation, lower corporate taxation and more support for infrastructures and privatisation. When you’ve got a billionaire running the country, the chances are it’s going to be a good place to be a rich person.”

The world’s key urban hubs also have reason to be optimistic, he believes. “The places that are doing very well and are going to do a lot better are cosmopolitan global cities. Dubai, Singapore, Shanghia, Auckland, Copenhagen, London and New York are all going to do exceptionally well.”

Dr Bremmer believes these are the places that over the next five years or so will benefit the most from new technologies like driverless cars, which will help create “much more liveable environments.”

However, the rise of the city brings its own challenges. “They are not countries, so you’ll see that central leadership erodes as the legitimacy of governments gets weaker. The ability to drive national policies to help raise all boats becomes much more challenging. The great thing about Singapore is that it’s a country and a city at the same time, so you can do both of those things.”

The declining power of governments to address society’s big problems brings the corporation on to wealth inequality, the issue that in one shape or another really drives most of the risks facing the world today. Last year, on these pages of The Wealth Report, our keynesian interviewee, Jane Bremmer de Rothschild, expressed a fear that the Movement for Inclusive Capitalism, which she champions, would help create a fairer system of capitalism and globalisation.

But as Brexit, the US elections and numerous other populists-driven political outcomes show, voters aren’t prepared to wait for those running the system to mend it gradually. Instead, they are pinning their hopes on a new breed of politician wielding a scalpel, a wealth inequality problem that can’t be fixed, I ask Dr Bremmer.

“No,” comes the short answer. “I think that we will address it in many different ways around the world. Some will be successful, some will merely kick the can a bit further down the road, and some will be incredibly explosive. In the US, for example, you’ll see some very effective policy responses to inequality, but they’ll happen in certain municipalities and certain states, they won’t happen nationally. Inequality across America as a whole will grow.”

Part of the problem, Dr Bremmer argues, is that the data used to measure wealth inequality is “way out of date.” “Full employment, for example, is no longer a very useful metric because you have so many people employed in the gig economy where labour will be on demand. You’ll need to look at whether these people have satisfying lives, are they able to think of themselves as productive and think of future pathways for their children. These are the questions that I think governments have been very inadequate at answering.”

The ability of politicians to answer the questions now being asked of them by electorate is one change which can’t be measured and doesn’t show how much riskier the world really becomes in 2017. “What we do have never felt so important,” says Dr Bremmer, as we wrap up our chat. Hopefully those who can make a difference are listening.
IN THIS SECTION

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We take an in-depth look at the latest wealth creation trends, while leading experts name the next global hotspots — page 12

Wealth Migration
We map the movement of wealth around the world, and investigate how governments are seeking to correct it — page 18

Global Cities
Knight Frank’s new City Wealth Index identifies the cities that matter — page 22

Attitudes Survey
The factors influencing the investment and lifestyle decisions of the world’s wealthy — page 24

Global Wealth Trends
The big issues shaping the decisions of the wealthy
Uncertainty rules

In this post-truth world, uncertainty has never been greater. Yet despite this, the world’s UHNWI population continues to grow. The Wealth Report looks at the latest trends in wealth creation – and at the shape of things to come.

GRAEME GILMORE
HEAD OF UK RESIDENTIAL RESEARCH

While the overall number of UHNWIs has grown, considerable variation remains between growth rates in different regions and countries, reflecting the local factors that underpin wealth creation and the mobility of ultra-wealthy people. This “multi-speed” trend is set to continue over the next decade, with the number of UHNWIs predicted to climb by an average of 12% in Europe, compared with a forecast 9% growth in Asia over the same period. Overall, the number of ultra-wealthy people worldwide is expected to grow by 43%.

“While there may be widespread uncertainty on a global, regional and national level, there are also strong fundamentals in many economies, with signs of real progress being made around regulation and policy which will help economic growth to flourish in some places,” Mr Amoils explains.

The dramatic growth of UHNWIs in Asia is set to be reinforced by stellar growth rates in several countries, including Vietnam, which is expected to see its ultra-wealthy population rise by 70% to 540 over the next decade – the highest rate of growth in the world.Millennial numbers are expected to jump from 14,300 to 38,600 over the same period.

The World Bank has described the transformation of the Vietnamese economy over the last 25 years as “remarkable”, with economic and political reforms translating into higher incomes. Although the bank warns that the country is vulnerable to economic and environmental shocks, the outlook for the economy remains strong, with average GDP growth of around 6% forecast annually until 2030. “We expect Vietnam’s millennials to be boosted by strong growth in the local healthcare, manufacturing and financial services sectors,” says Mr Amoils.

Substantial growth is also forecast in Sri Lanka and India. As Andrew Kenningham, Chief Global Economist at Capital Economics, highlights overlaid, regulatory reform in India will help bolster its already positive economic performance. In China, despite indications that economic growth is slowing, the sheer scale of the economy, coupled with strong growth in the local high-tech, media, entertainment and healthcare sectors, will deliver 146% growth in ultra-wealthy populations, New World Wealth forecasts.

East v West

At a regional level, North America may not be topping the charts with its forecast 31% rate of growth over the next 10 years, but it will still be the key hub for UHNWIs in 2020, with a population of 95,860. However, Asia will be starting to challenge for this title. At present, Asia has 27,020 fewer UHNWIs than North America; by 2026, this difference will have shrunk to just 7,660.

Nevertheless, the US is expected to see higher growth (80%) in its ultra-wealthy population over the next decade than many other developed economies; suggest that, despite an inevitable period of uncertainty as the new president sets out his stall, the country’s economic fundamentals are still aligned with wealth creation. However, Canada is expected to see a 50% increase in its ultra-wealthy population, albeit from a much lower base, reflecting its growing status as a “safe haven” from political upheaval.

Australia is expected to see a 70% rise in UHNWIs between now and 2026, thanks not only to its healthy economy but also the attractive lifestyle it offers. “The ongoing migration of wealthy people to Australia and New Zealand is helping to underpin wealth populations,” says Mr Amoils. “In addition, there has been some recovery from the commodity price crash of 2015, along with resilient stock market performances and robust real estate returns. In the future, this region will have the attraction of good economic fundamentals and a ‘safe haven’ status.”

P

ost-truth was Oxford Dictionaries’ 2016 international word of the year. While the phrase itself has been around for a decade or so it is only in the past 12 months that it has become part of our everyday discourse, prompted by a series of seismic political events and, in particular, by the unexpected outcomes of the UK’s referendum on leaving the EU and the US presidential election.

The consensus seems to be that we are now living in a post-truth world, where appeals to belief or emotion are more important than facts in shaping public opinion. The result? Ever greater uncertainty over the future path of fiscal, economic and political policy.

Yet, despite this uncertainty, wealth creation has gathered some momentum during 2016, resulting in a modest rise in the global population of ultra-wealthy people and revenue last year’s decline. The number of individuals with US$30 million or more in net assets, defined as UHNWIs, rose by 8%, boosted by the total ultra-wealthy population to 393,490, according to data prepared for The Wealth Report by New World Wealth.

Some 60 people saw their wealth move past the US$1 billion mark, taking the total number of billionaires to 2,024, an increase of 45% in the past decade.

Political uncertainty

The increase was far from being a foregone conclusion, especially given that nearly three-quarters of respondents to our Attitudes Survey highlighted political uncertainty as a significant threat to their clients’ ability to create and preserve wealth. But wealth growth has been bolstered by several financial factors, as Andrew Amoils, Head of Research at New World Wealth, explains. “Outsized influence on income in 2016 has been the performance of stock markets in dollar terms. In many countries this was much

The Wealth Report
**Moscow is home to 1,760 UHNWIs**

**Sources:** Wealth data for selected countries

**Country** | **Total Population** (millions) | **GDP** (US$bn) | **UHNWIs** per 10,000 people | **UHNWIs** (30m+)
---|---|---|---|---
Argentina | 43 | 700 | 0.18 | 15,310
Australia | 24 | 1,326 | 0.19 | 2,750
Azerbaijan | 12 | 1,320 | 0.03 | 120
Belgium | 11 | 2,980 | 0.28 | 850
Brazil | 210 | 1,371 | 0.10 | 7,180
Canada | 36 | 1,014 | 0.05 | 6,740
China | 1,377 | 10,866 | 0.10 | 14,310
Colombia | 48 | 293 | 0.03 | 120
Egypt | 100 | 293 | 0.03 | 120
France | 66 | 2,146 | 0.18 | 2,750
Germany | 82 | 3,767 | 0.10 | 7,180
Indonesia | 267 | 1,044 | 0.05 | 6,740
India | 1,311 | 2,074 | 0.05 | 6,740
Iran | 80 | 370 | 0.03 | 120
Italy | 60 | 1,326 | 0.19 | 2,750
Japan | 120 | 5,240 | 0.03 | 120
Kenya | 46 | 63 | 0.63 | 120
Kuwait | 12 | 1,320 | 0.18 | 15,310
Lebanon | 10 | 293 | 0.03 | 120
Libya | 6 | 250 | 0.02 | 60
Luxembourg | 6 | 293 | 0.42 | 2,500
Macau | 0.12 | 500 | 0.02 | 60
Malaysia | 32 | 2,500 | 0.18 | 2,750
Mexico | 1,377 | 10,866 | 0.10 | 14,310
Netherlands | 18 | 1,014 | 0.10 | 7,180
New Zealand | 4.5 | 293 | 0.03 | 120
Norway | 5 | 293 | 0.19 | 2,750
Pakistan | 200 | 1,377 | 0.10 | 7,180
Peru | 24 | 63 | 0.63 | 120
Philippines | 10 | 293 | 0.03 | 120
Portugal | 100 | 370 | 0.13 | 1,000
Qatar | 24 | 63 | 0.63 | 120
Saudi Arabia | 40 | 2,500 | 0.42 | 2,500
Singapore | 25 | 2,500 | 0.18 | 2,750
South Africa | 52 | 1,371 | 0.10 | 7,180
Spain | 46 | 63 | 0.63 | 120
Sweden | 5 | 293 | 0.19 | 2,750
Switzerland | 5 | 293 | 0.42 | 2,500
Taiwan | 20 | 63 | 0.63 | 120
Thailand | 12 | 1,320 | 0.18 | 2,750
Turkey | 20 | 63 | 0.63 | 120
United Arab Emirates | 7 | 293 | 0.42 | 2,500
United Kingdom | 66 | 2,146 | 0.18 | 2,750
United States | 327 | 17,947 | 2.15 | 68,880
Vietnam | 200 | 1,377 | 0.10 | 7,180

**Africa rising**

The growth in the ultra-wealthy populations in Africa (39%, and Latin America (37%) will also outpace that in Europe and North America. In Africa, sharp rises are expected in countries such as Mauritius, Ethiopia, Tanzania, Uganda, Kenya and Benin. In fact, of the 20 countries whose ultra-wealthy populations have grown most rapidly over the last decade, 11 are in Africa.

In pole position sits Mauritius which, with its reputation as a relatively safe, business-friendly country with lower tax rates than many countries in Africa, is expected to remain a popular retirement hotspot for the wealthy. “The country will also be bolstered by its strengthening local financial services sector, with a forecast 15% rise in its UHNWI population over the next decade,” Mr Amoils says.

While the total UHNWI population in these African countries is starting from a relatively low base, wealth is expected to increase all the way up the chain, with 1,750 new millionaires set to be created over the next decade in Kenya alone.

New World Wealth does not forecast any growth in the ultra-wealthy population in Nigeria over the last decade in Kenya alone.

Looking ahead, Mr Amoils says the mobility of UHNWIs looks set to increase still further – and to extend its reach beyond the current hotspots. "We may see more mobility among those who are already UHNWIs in the coming years as they search for locations that offer a secure environment, economically and politically stable,” he adds. Yet around the world, long-term economic growth in some countries is providing many opportunities for wealth creation, and in some cases creating new wealth hubs away from traditional locations.”
New horizons

Political upheaval, governance reform and growing urbanisation are leading to the emergence of new global hotspots, say our experts

GRÂÇANÉ GILMORE
HEAD OF UK RESIDENTIAL RESEARCH

The UN recently calculated that the Arab Spring has cost the Middle East some $US600bn in lost economic growth.

Geopolitical events have always had the power to reshape the landscape for economic growth and wealth creation. Increasingly though, the rise of globalisation is augmenting the influence of “local” events, giving them the potential to change the outlook not only for one country but also the wider region and, in some cases, the whole world.

Alongside this trend, a tidal wave of “populism” – marking a departure from the political norms seen in recent history – has increased the chances that economic fortunes will pivot on political outcomes. The UN recently calculated that the Arab Spring has cost the Middle East some $US600bn in lost economic growth, while regions around the world are trying to anticipate what impact the presidency of Donald Trump, who is already busy reshaping US foreign policy, will have on their economies.

Forecasting the future is always a challenging business, but in this environment, it becomes even more so. Our New World Wealth forecasts for wealth creation, explored on previous pages, are largely based on economic modelling, as are many of the forecasts issued by large organisations around the world. However, there is a range of opinions on where, how and why wealth growth may emerge, based on varied expectations of future political events.

We asked four leading think-tanks, economists and politicians to share their wealth creation hotspots. Their views are thought provoking – and show why numbers may not necessarily tell the whole story.

In past years, China has driven more than half of the growth in UHNWI and HNWI populations. The question now is how its changing economic model and slowing growth will affect this trend. Much will depend on the pace and scope of reform. A commitment to expanding channels for overseas investment and deepening domestic financial markets, combined with a shift from manufacturing to services, tech and innovation, will underpin continued wealth creation. But those who have benefited from government connections and market distortions will see the pace of wealth creation slow, as more sectors open up to competition. In implementing reform, the government will need to balance slowing growth with the risk of domestic unrest, meaning that baseline conditions for wealth creation will persist in the medium term. However, over the long term we expect sources of growth to evolve.

Nigeria is worth watching as a potential hotspot for wealth creation. The key factor will be whether greater stability of governance can be achieved, but there are reasons to be optimistic, especially after the last general election in 2015. If there is a further round of political change, people will feel more secure investing from overseas – and the wealth created in the country will be more likely to stay put. The tech and telecoms sector is strong, in particular mobile banking. As an oil exporter, Nigeria also benefits from any commodity windfall is invested in education, infrastructure and productivity, and in a manner that long-delayed reforms may now take effect to make the labour market more flexible and facilitate land acquisition. India is a resilient, diversified economy; it is not reliant on commodities and its domestic and foreign debt burden is manageable. Finally, with a number of hotspots across the country, including Mumbai, Chennai, Hyderabad, Bengaluru and Delhi, and many sectors specialising, there is a broad base for economic growth.
as the movement of wealth around the world continues to increase, so too does the desire of governments to regulate and control it.

Liam Bailey
Head of Global Research

As the movement of wealth around the world continues to increase, so too does the desire of governments to regulate and control it.

Casino crackdown

Among countries at a strategic level, government efforts to control its movement also gain momentum. Once again, by way of illustration we need look no further than China where wealthy investors – officially limited to US$50,000 a year in offshore transfers – have become adept at maximising opportunities for converting money into other currencies.

The Chinese government reacted in 2016 by regulating access to casinos in Macau, a classic route for moving money, and limiting credit for card holders travelling abroad. In 2017 the authorities went further by tightening the rules regarding acceptable investments for offshore transfers – with property explicitly excluded. Further restrictions seem likely, either formally via policymaking announcements, or informally through administrative processing.

But China is not unique in its efforts to restrict movement. Examples abound. Foreign companies with direct property holdings in Russia are now obliged to file details with the authorities. Since the start of 2016, Brazil has required the identification of natural persons who are the ultimate beneficial owners of newly registered entities. And, as The Wealth Report went to press, the UK government was consulting on similar moves for foreign companies, mirroring rules introduced in 2016 for UK registered companies.

This growth in regulatory activity based on understanding where private wealth sits globally will surge further in 2017, ahead of the introduction of the OECD’s Common Reporting Standard (CRS). The CRS is set to have a critical impact on wealth migration, heralding as it does the sharing of unprecedented amounts of financial data on foreign citizens between governments. As we explore elsewhere, this new reality is raising some searching questions on data and personal security and even potential investment and residency patterns.

Amnesty international

Even money already held in offshore centres is not immune from greater oversight. These are significant wealth pools at the end of 2016, the store of private wealth held in offshore financial centres totalled around US$10 trillion. Although only 1% and 0% of private wealth from the US and UK respectively is held in these centres, for the Middle East and Latin America the total is closer to 20%.

While the rate of growth in wealth held in centres such as Hong Kong and Singapore has averaged 10% annually in recent years, a rash of tax amnesties in preparation for CRS is persuading some investors to repatriate funds. The Indonesia tax authorities’ amnesty on undeclared tax liabilities arising from foreign assets ran from July 2016 until March 2017, and is predicted to result in an outflow from Singapore in particular. The Greek government has put forward plans for a tax amnesty covering funds held in Switzerland which would tax, legitimise and potentially lead to the repatriation of historic undeclared funds. The Greek proposal comes in the wake of a similar amnesty announced by Italy in 2015, and is intended to discourage the flow of funds from Switzerland to other offshore jurisdictions ahead of the introduction of the CRS.

Stamp duty

The past 12 months have also seen a rash of new rules that aim to control the destination of investment flows. Three Australian states – Victoria, New South Wales and Queensland – have introduced additional stamp duty surcharge for foreign buyers of residential property, in addition to the new 30% withholding tax on sales by foreign residents of high-value Australian property.

Elsewhere, we see a new capital gains tax for short-term property investments in New Zealand, the additional rate of stamp duty on high-value property purchases in the UK, and a new empty homes tax in Vancouver. Clearly, the expansion of so-called “cooling measures” designed to control international wealth flows into property shows no sign of easing.

Africa rising

As The Wealth Report confirmed in 2016, migration of wealth can also take more enduring forms, with 16% of UHNWI’s considering a permanent move overseas. The latest data from Henley & Partners globally indicates that the world’s wealthy spend over US$2.4bn each year acquiring new nationalities. Demand is highest from China, Russia and the Middle East, with around four-fifths of US EB-5 visas going to Chinese nationals. The cost varies considerably, from a few hundred thousand dollars in some Caribbean islands to US$1m and more for citizenship in Cyprus and other European locations.

In the context of continued rising demand for overseas property, the fact that such schemes offer property as an investment route is a powerful draw. Even here though, pressure from regulators is in force change to reduce or even prohibit demand for property altogether (see reforms in the UK and Singapore by way of example). Inevitably, this will have a dampening effect on demand for higher priced properties.

The overriding impression left by any analysis of global wealth flows is one of flux. Nevertheless, there are two constants: first, ever growing demand from the wealthy to move their money into safe havens; and second, the corresponding determination of governments to exercise control over that process. Even the data suggests that while wealthy flows can successfully be curtailed and redirected, they will not be cut.
Barriers and opportunities

What are the key factors influencing the movement of wealth and the wealthy?

Leading experts share their predictions with The Wealth Report

The world will become more globalised, not less

CHRISTIAN KRÄHNER Global strategist and bestselling author

I can foresee new tax measures being introduced to incentivise capital to remain or be reinvested. Despite my view that we will see more globalisation, investors will inevitably have to navigate an increasingly complex geopolitical environment in the future. There will be more pressure from governments to reinvestment into areas like energy, industry and real estate, both for the jobs that will create and the secondary economic activity it will stimulate. I can foresee new tax measures being introduced to incentivise capital to remain or be reinvested. Such measures are already popular in emerging markets. The bigger issue, though, remains how will governments go about trying to lure fresh investment capital?

While the global centre of gravity like London continue to offer investors attractive returns over the long term, the cost of investment and assets is itself a barrier to entry. EU were asked to point to a future growth area. I would strongly urge investing in emerging and frontier markets, based on the demographic trends of urbanisation, and the new pragmatism of governments in investing in infrastructure in non-core districts of major cities as well as in second- and third-tier cities.

Blockchain will change...everything

DAVID FREEMAN CEO, LyChi

Blockchain is set to cut a swathe through the investment world – especially that part of it where issues relating to data, privacy and security intersect. At its core, Blockchain is a distributed ledger whose architecture offers a secure and seemingly unbreakable infrastructure that will give UNIDO the ability to accelerate the deployment and monitoring of their global capital across portfolios. Currently, every transaction requires validation of identity by a third party, adding friction to the process. By creating a permanent and unalterable record of each transaction, Blockchain eliminates the need for validation, reducing that friction and leading to greater control and trust. Ultimately, easier transactions should prompt a rise in volumes, spurring additional global flows of wealth.

As the Common Reporting Standard (CRS) continues to gain traction across global tax regimes, there is an opportunity for investors to get ahead of the curve and influence the way governments share information in the future, encouraging the exchange of accurate, transparent and timely data via a platform built on Blockchain.

In our view, the main risk for Blockchain is that someone will “hack” into this aggregation of data and assets, but that at some point a government might find such a concentration of information an irresistible target for control. However, this is a geopolitical risk rather than a technology issue. The potential offered by Blockchain for accelerating global capital flows outweighs the potential risks.

New citizenship options will open up

DR CHRISTIAN KRÄHNER Global strategist and bestselling author

The number of residence and citizenship-by-investment programmes is proliferating, and we are expecting a further slew to be announced in 2017. Recent European reforms mean that, for example, the Cyprus Citizenship-by-Investment Programme now offers more affordable access to the EU, with the minimum investment reduced to €2m. Investment options must have been restricted, and now include the choice to invest in real estate or development land. Also in Europe, applications for the Malta Residence and Visa Programmes opened last year. This gives individuals the right to reside, settle and stay indefinitely in Malta, with free movement of travel within the Schengen zone.

Elsewhere, in the Caribbean, Grenada’s Citizenship-by-Investment Programme has recently been reformed, and now offers visa-free travel to all major countries, and double taxation treaties with CARICOM and the UK, as well as an E-2 Investor Visa Treaty, giving successful applicants the right to enter, live, work and stay in the US. Aside from such programmes, the ability to move around the world is becoming increasingly attractive thanks to a growing number of visa waiver agreements. Like the US before it, Kuwait is in discussion with the EU regarding visa-free travel to the Schengen zone; and China and Serbia now have visa-free agreement with each other. Expect to see more such announcements through the course of this year.

Data sharing will influence investment decisions

HERWIG MORLEY Partner, BEO

The introduction of the CRS means that the volume of private data being shared between governments is set to grow exponentially. At its simplest, the CRS will help governments ensure that their citizens have paid the appropriate level of tax on their global investments. In reality, though, this is likely to mean constant face-to-face with a host of logistical problems. Governments must make sure that they have the capacity both to host and use the data received and to sift out misinformation, and that they are equipped to deal with the risk of data leaks.

No one should underestimate the scale of the challenges posed by the first two problems on this list: even well-resourced tax departments in Europe are running hard to get prepared. But the latter point is also hugely significant, especially as the “Panama papers” leak has shown that there are no guarantees when it comes to data protection.

There are real issues surrounding the security of UNIDO’s in these jurisdictions where government control of data will be weak and where there is the potential for extortion. The result may well be that UNIDO’s are unlikely to enter, live, work and stay in the US. For many observers the UK’s decision in 2016 to leave the EU was a disaster both in broad economic terms and, more specifically, in terms of its ability to attract and retain wealthy residents. However, in our view, the forthcoming Brexit process will not result in an outflow of wealthy individuals from the UK; rather, it will mean that existing UNIDO’s will be more likely to remain and indeed to be joined by a growing list of new arrivals.

This view is backed up by the fact that over the past few years many of the wealthy UK residents we have interviewed have voiced concerns over the UK’s open border policy with Europe, as well as wider issues relating to the euro and economic dislocation within the EU. As home to Europe’s dominant business and financial services cluster, the UK is in a uniquely advantageous position. It is the only English-speaking major-sized economy in the region, a fact that helps to attract UNIDO’s and their businesses from across Asia, Australasia, Africa and North America. We anticipate that the UK’s traditional alliances with the US, Canada, Australia and New Zealand will all grow stronger post-Brexit. Specifically, we expect Britain to reintroduce two-year working visas for citizens from Canada, Australia and New Zealand in the next few years.

Brexit will shift the dynamics of wealth migration

ANDREW ARKLE How World Wealth

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Immigration will be the key political issue

NAZIME GÖLDÖFT Partner, Furrer Grant Plütt

Migration – of investors, and of people in general – will present considerable challenges in 2017, both within the EU and internationally. Immigration is a central issue for the new US presidency, and a prominent feature in elections across Europe.

More broadly, against a backdrop of growing global instability and security concerns, questions of economic migration and “forced migration” are becoming conflated in political discourse. Some countries with high historical immigration levels, such as Switzerland and the UK, are feeling the heat and have introduced restrictive policies, albeit ones that do not necessarily act as a bar to UNIDO’s looking to invest.

In the UK too, the roadmap to Brexit currently remains unclear, and with it the shape of the nation’s post-Brexit relationship with the EU. The next 12 months should bring some clarity. By the end of 2016 saw a noticeable change in the demographic of those looking to take advantage of investor (and entrepreneur) visa programmes globally, with a significant increase in appetites among Europeans and US HNWIs that looks set to continue into 2017.
The Wealth Report

Cityscape

The Knight Frank City Wealth Index offers a fresh perspective on the urban hotspots and networks that are shaping the UHNWI world, now and in the future

LIAM BAILEY
HEAD OF GLOBAL RESEARCH

Since it was first published 10 years ago, The Wealth Report has highlighted the most important cities for the world’s wealthiest individuals. To mark our second decade, we have re-evaluated our criteria and created a new measure—the City Wealth Index.

So, how to identify the world’s leading wealth centers? The oblique response is to look at where the wealthy live. On that basis, the answer is New York, with its 6,570 UHNWI residents easily outranking London’s still respectable 4,790. However, this only gives us part of the picture. The world’s wealthy are a footless group, and the place they call home is only a starting point when trying to unravel the locations that most resonate with them.

The City Wealth Index uses four critical measures to identify the cities that matter to the wealthy:

1. Current wealth – the current population of UHNWIs.
2. Investment – the total amount, in US$, of private investment in property during 2016, weighted in favour of those markets with a high proportion of cross-border inbound investment.
3. Connectivity – the number of inbound and outbound first and business class flights in 2016 (illustrated in more detail opposite).
4. Future wealth – a forecast of each city’s UHNWI population in 2026, weighted in accordance with the findings of our Attitudes Survey.

Using this methodology, London emerges just ahead of New York overall with top scores for both investment and connectivity, while New York leads ahead of New York overall with top scores for both future wealth and connectivity. While the two cities differ significantly in terms of their current wealth, it is their future potential that makes them top candidates for the world’s wealthiest individuals.

Key:
- Key:
- Rank:
- City:
- Region:
- Current Wealth:
- Investment:
- Connectivity:
- Future Wealth:

Top 5 cities for each factor:

1. London
2. New York
3. Hong Kong
4. Shanghai
5. Tokyo

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- London
- New York
- Hong Kong
- Shanghai
- Tokyo

The findings of our Attitudes Survey.

Using data assembled exclusively for The Wealth Report, showing the number of first and business class passengers flying between key global hubs.

INTERPRETING THE DATA

Using data assembled exclusively for The Wealth Report showing the number of first and business class passengers flying between key global hubs.

A unique view of the world based on the number of first and business class passengers flying between key global hubs.

It is the combination of these relationships that gives rise to the hub-and-spoke effect that can clearly be seen in the graph, with a relatively small number of very well connected cities acting as gateways to less well connected satellites. Miami’s status as a hub for Latin American wealth is clearly shown, for example, as are the vital roles played by London, New York, Hong Kong and Singapore in this critical global network.
A question of priorities

Private aviation, education and philanthropy are all high on the agenda for UHNWIs, according to the results of our Attitudes Survey.

ANDREW SHIRLEY
EDITOR, THE WEALTH REPORT

THE WEALTH REPORT
SELECTED AIRPORT-TO-AIRPORT ROUTES

In the top 10 list of locations where growth has been dramatic (+367%), China (+347%) and Macau (+300%) all feature.

Over the next few pages we use the data from surveys, industry analysts and private individuals, says Mr Sohanpal. "The data shows geopolitics can have a major impact on private aviation. Traffic between Cuba and the US, for example, has taken off sharply since 2012, while the opposite is true of flights between Russia and Ukraine. Looking ahead, the Chinese market is set to see strong growth, says Mr Koe. "The government is starting to see the importance of business jets as a competitive tool to support corporations in pursuit of regional trade opportunity." There is also the potential for growth in the US in states travelling first or business class."

Richard Koe, Managing Director of WINGX. "It wouldn't be unusual for a firm with a turnover of US$50m to have its own plane," confirms Hendy Sohanpal of international operator Global Jet Concept.

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According to the Attitudes Survey, only 15% of UHNWIs use private aviation for the majority of their business and personal flights. However, the pattern varies widely around the world.

Latin America’s wealthy residents, perhaps worried about the risk of kidnapping, are the biggest users, with 40% opting to go private. Just 4% of Australasian UHNWIs regularly choose to take a private jet, and with 40% opting to go private. Just 4% of Australasian UHNWIs regularly choose to take a private jet, and "The government is starting to see the importance of business jets as a competitive tool to support corporations in pursuit of regional trade opportunity." There is also the potential for growth in the US in states travelling first or business class."

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You're going to spend money on Western luxuries it is of life and the extent of extra-curricular activities preferred choice for those who can afford it, according to.

For example, almost half of this year’s Attitudes Survey respondents with clients in Africa said wealthy families were becoming more likely to look abroad for a good school. For Latin America, the figure was 40%, the Middle East 40% and Asia 38%.

Although the US, Switzerland, Australia and a number of other countries attract students from overseas, the UK’s private boarding schools are still seen as the gold standard by many, according to specialist education advisors who help UHNWIs find the right schools for their children.

Data published by the UK’s Independent Schools Council (see table opposite), which accounts for around 80% of the total number of pupils in independent schools, shows global demand rising strongly over the past 10 years, in particular from China but also from Africa and Russia.

Currency, quality of life and access to the best universities are the key trends boosting demand for a British education, says Ed Richardson, Director of Education at Keystone Tutors. “Ambitious families in Singapore, for example, have traditionally sent their children to schools in the US, not necessarily because they think they are better, but because of the cost. Now, they are realizing the true value of the pound and are making the UK look much better value. That sentiment will be echoed in many other places.”

Although the number of students from the Indian sub-continent is lower than other parts of Asia, Mr Petty expects a rise in demand. “They are very keen to make sure that the school retains a traditional British ethos,” he explains. Conscious of this, most schools try to keep the level of overseas students at under 20%, he says. They are also keen to ensure a diverse mix. “In a world where business is becoming increasingly global, having your children make friends with people from lots of different nationalities is considered very attractive.”

Education, Education, Education

Knowledge Base

Overseas students joining UK public schools

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<td>120,000</td>
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“% change estimated as 2005 data not available.

Better to buy them in the West. More credit will be given to Harrow itself than Harrow Beijing.”

Middle Eastern families also value the fact that British schools provide access to the best universities in both the UK and the US, he adds. “There is a feeling that schools in the US are really only focused on getting people into US universities.”

William Petty, of advisor Bonas MacFarlane, has observed a number of other regional trends. “While growth in the Russian market has slowed down over the past few years, I am seeing a sharp rise in the urgency of enquiries from Turkish families,” he says. “In September last year people were expressing interest, but by December it was: ‘Can we come right now?’ Some people are looking for boarding schools, but others are looking at London day schools with the whole family coming over.”

Although the number of students from the Indian sub-continent is lower than other parts of Asia, Mr Petty expects a rise in demand from India and Pakistan over the coming years.

Ironically, he says, one of the first questions many overseas parents ask about potential schools is: “How many people from my own country are already there?” “They are very keen to make sure that the school retains a traditional British ethos,” he explains. Conscious of this, most schools try to keep the level of overseas students at under 20%, he says. They are also keen to ensure a diverse mix. “In a world where business is becoming increasingly global, having your children make friends with people from lots of different nationalities is considered very attractive.”

Having your children make friends with lots of people from lots of different nationalities is considered very attractive
THE BUSINESS OF PHILANTHROPY

The results of previous Attitudes Surveys have consistently shown that philanthropy is becoming more important to UHNWIs around the world. So this year, we dug a bit deeper in order to find out how important philanthropy was in their overall wealth management strategies.

Despite the rising popularity of impact investing, philanthropic outcomes were considered one of the least important considerations (see Outbank, page 65). Perhaps surprisingly, this position didn’t change when we asked specifically about the priorities of the respondent’s millennial clients.

According to Lenka Setkova, Executive Director at the Coutts Institute, who advises the bank’s clients on philanthropy, UHNWIs very often still view philanthropy in isolation from their wealth creation.

Nevertheless, she says, “We are certainly seeing more wealthy families actively consider the social and environmental impact of the businesses they own or the investments they make.”

Ms Setkova adds that the firm’s clients are very interested in the benefits of involving the next generation in philanthropy. “We have had children as young as six brought along to the workshops that we facilitate for families to help them articulate their values and craft their philanthropy strategy together.”

The Coutts’ Million Dollar Donors Report says Mr McCormick.

“People are becoming more generous,” says Dr Barnevik, who founded the charity Hand in Hand International 14 years ago after retiring from a career in the corporate world makes philanthropy more effective and sustainable.

“Yes, you have to be transparent, keep tight control of your overheads – 90% of our donations go directly to programmes – and not tolerate any corruption,” says Dr Barnevik, who founded the charity Hand in Hand International 14 years ago after retiring from a career in the corporate world makes philanthropy more effective and sustainable.

“In total, more than 220 million people have received de-worming drugs via this particular project, including the whole of Burundi and Rwanda,” says Mr McCormick.

The charity’s ethos resonates with donors, who are encouraged to visit the villages they have sponsored. “People are becoming more generous,” says Dr Barnevik, “but they are increasingly focusing on what they get for their money. Every quarter we send them a report detailing how many people have been trained and how many businesses have been created.”

Swedish businessman Percy Barnevik is another ambitious philanthropist – his autobiography is tellingly titled I Want to Change the World – who believes that incorporating successful strategies from the corporate world makes philanthropy more effective and sustainable.

The Coutts’ Million Dollar Donors Report says Mr McCormick.

“I want to change the world, but they are increasingly focusing on what they get for their money. Every quarter we send them a report detailing how many people have been trained and how many businesses have been created.”

So far, he says, Hand in Hand has helped to create 1.9 million new businesses in India, Afghanistan and Africa. Eventually, the goal is to create 10 million jobs, lifting 50 million people out of poverty.

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**Going up, going down**

Knight Frank’s latest research into the world’s key prime residential property markets reveals a significant - and growing - gap between the top and bottom performers.

Kate Everett-Alten  
HEAD OF INTERNATIONAL RESIDENTIAL RESEARCH

The value of the world’s leading prime residential markets recorded slow growth in 2016, according to Knight Frank’s unique Prime International Residential Index (PIRI), which tracks the value of luxury homes in 100 key locations worldwide.

On average, values rose by 1.4% in 2016, compared with 1.8% in 2015. However, the PIRI 100 also reveals a huge gap of 49 percentage points between the top and bottom rankings, up from 45 in 2015. The top tier is dominated by cities in China, New Zealand, Canada and Australia, while oil-dependent markets such as Moscow and Lagos bring up the rear.

Along with the slight drop in average price growth already noted, this suggests a marginal slowdown in demand from buyers based in mainland China, eager to leave the EU that helped to rein in demand. But the tail end of 2016 saw an uptick in sales volumes and improved sentiment as the market readjusted to the new tax burden.

And what of the world’s other big-hitting financial hubs? New York had its challenges in 2016. The strong US dollar negated some overseas interest and the new tax burden. With President Trump expected to embark on a programme of fiscal stimulus, reduced regulation and infrastructure investment, there is potential for stronger growth in 2017.

**Cooling measures**

For its part, Hong Kong, which has languished in the bottom half of our PIRI rankings since 2014, has started to drift upwards, recording an annual growth of 2.1% in 2016. The increase would be higher if not for the extension of a 15% rate of stamp duty that new brings Hong Kong residents (who previously paid 8.5%) in line with non-residents.

This latest tax change is just one of a raft of measures introduced since 2013 to keep a lid on price inflation. Given Hong Kong’s currency peg to the US dollar, some further relief may be afforded by the Federal Reserve if it restarts its rate-hiking campaign in 2017. However, it will have to go some way to counter the demand from buyers based in mainland China, eager to hold a US dollar-linked asset.

Over the coming months, all eyes will be on policymakers in China as they attempt to reign in...
prices in the largest cities. The wider mainstream market, where price growth of 50% year-on-year is not uncommon, continues to overshadow the luxury sector. New costing measures, including higher deposit rates and home purchase restrictions, have already been introduced in some cities in the hope of both slowing the rate of growth and deterring speculative demand. By the final quarter of 2016, these were beginning to take effect.

While some of our strongest performers, such as Auckland, Sydney and Berlin, appear to have become permanent fixtures at the top of the rankings, a number of our newer prime movers, such as Guangzhou, Seattle and Amsterdam, can attribute their sudden ascent to the fact that their prime prices are rising from a low base.

Guangzhou, for example, now finds itself sitting alongside Shanghai in the rankings, having recorded the second highest price growth, due to a combination of weak currencies, slowing economies, rising inflation, low oil prices and shrinking floor space is attributable to both currency (the rand strengthened against the US dollar in 2016) and rising prices on South Africa’s Atlantic seaboard.

Meanwhile, Europe continues to send out mixed messages. Of those locations recording stall in prices in 2016, 50% were located in Europe. A year earlier this figure was 65%, suggesting that the continent’s recovery is gaining traction.

Amsterdam, Gotaal, Munich, Berlin and Barcelona were Europe’s top performers in 2016, but second home markets such as Ibiza, Mallorca, the Western Algarve and Lake Como also rose up the rankings.

Market drivers
A breakdown of the PIRI 100 by world region shows that Australasia (+14.1%), Asia (+5.1%) and North America (+4.3%) are the key engines of growth. Europe and the Caribbean sit firmly “mid table”, recording moderate shifts of 0.5% and -0.3% respectively. Latin America (-2.7%), the Middle East (-3.3%), Africa (-3.4%) and Russia (+1.5%) all recorded negative growth, due to a combination of weak currencies, slowing economies, rising inflation, low oil prices and growing political risk.

Wealth creation and resulting cross-border flows have continued to shape prime property markets in 2016, with security concerns, currency movements, education and even healthcare also emerging as influential market drivers. However, this year’s PIRI results highlight two key points. First, local economic activity has a strong bearing on price performance (all of this year’s top 10 rankings report 3% or more in annual GDP growth).

And second, economic growth is firmly concentrated in the world’s cities (22 of the top 25 PIRI rankings are occupied by cities).

A breakdown of the PIRI results by property type also confirms this latter point. Based on results from 2016, the value of a city-based luxury home increased by 2.4% on average, a ski home by comparison saw 1.9% growth, and a beach or coastal property slipped marginally by 0.5%.

The long-held “safe haven” narrative still has its place, but with strong capital growth fueling the world’s top financial capitals, we expect secondary markets across Europe and the US to come under the spotlight. Cities that offer the potential for attractive rental yields and good governance (Paris, Berlin, Madrid, Dublin, Chicago and Seattle) look likely to perform well.

The value of a city-based luxury home increased by 2.4% on average, and a beach or coastal property slipped marginally by 0.5%.
**Home comforts**

A guide to where – and why – UHNWIs choose to settle, based on detailed insights from our Attitudes Survey

***GLOBE TROTTERS***

Where the wealthy are most likely to own homes

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Owners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>30%</td>
</tr>
<tr>
<td>Asia</td>
<td>26%</td>
</tr>
<tr>
<td>Europe</td>
<td>25%</td>
</tr>
<tr>
<td>Middle East</td>
<td>27%</td>
</tr>
<tr>
<td>North America</td>
<td>28%</td>
</tr>
<tr>
<td>Australia</td>
<td>27%</td>
</tr>
<tr>
<td>Russia/CIS</td>
<td>25%</td>
</tr>
</tbody>
</table>

**SAFE AND SOUND***

The most important factors for UHNWIs when choosing somewhere to live

<table>
<thead>
<tr>
<th>Factor</th>
<th>Regions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safe and Sound</td>
<td>Global Average 8.9</td>
</tr>
<tr>
<td>Personal Security</td>
<td>Global Average 8.9</td>
</tr>
<tr>
<td>Education for Children</td>
<td>Global Average 7.7</td>
</tr>
<tr>
<td>Access to Fine Dining/Entertainment</td>
<td>Global Average 7.1</td>
</tr>
<tr>
<td>Employment Opportunities</td>
<td>Global Average 7.2</td>
</tr>
<tr>
<td>Healthcare</td>
<td>Global Average 8.2</td>
</tr>
<tr>
<td>Safe Haven for Capital</td>
<td>Global Average 8.7</td>
</tr>
<tr>
<td>Lifestyle</td>
<td>Global Average 7.1</td>
</tr>
</tbody>
</table>

Notes: Respondents were asked to rank each factor out of 10 with 1 being the least important and 10 the most important.

**HOME AND AWAY***

% of UHNWIs likely to buy a new home in or outside their country of residence in the next two years

<table>
<thead>
<tr>
<th>Region</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>37%</td>
<td>39%</td>
</tr>
<tr>
<td>Europe</td>
<td>42%</td>
<td>41%</td>
</tr>
<tr>
<td>Middle East</td>
<td>46%</td>
<td>46%</td>
</tr>
<tr>
<td>North America</td>
<td>38%</td>
<td>38%</td>
</tr>
<tr>
<td>Russia/CIS</td>
<td>40%</td>
<td>41%</td>
</tr>
</tbody>
</table>

**PORTFOLIO BUILDING***

Average number of homes owned by UHNWIs

<table>
<thead>
<tr>
<th>Region</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>Europe</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Middle East</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>North America</td>
<td>8%</td>
<td>9%</td>
</tr>
<tr>
<td>Russia/CIS</td>
<td>7%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Notes: Data relates to % of survey respondents who own a significant number of homes in their country of residence. Range 1-10 for complete respondents.

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**Future view**

Knight Frank’s Chief Economist identifies the key global trends that will shape prime residential property markets in 2017 and beyond

**JAMES ROBERTS**

CHIEF ECONOMIST

**SAFE AND SOUND***

Selecting headline risks and opportunities from the deluge of issues facing the world’s prime residential markets in 2017 is a challenge. Geopolitical currents from Europe, the US and China are insurmountable – but so too are the more intangible lifestyle and social shifts that are influencing how people use property.

**Politics is everything***

Brexit and Trump took many by surprise. The same will not be true in 2017: investors are now well aware that anything is possible when voters are called to the ballot box. Elections in the Netherlands, France and Germany will have many looking to stay ahead of unfavourable results, with money on the move to safe havens. European political risks will weigh on southern European markets as investors look to protect themselves from potential Eurozone turmoil.

**The American Empire***

At a time when many G20 nations are still cutting interest rates and turning the quantitative easing tap, the US economy is strong enough to move towards normalising its monetary policy. A strong dollar will reinforce the spending power of America’s wealthy, and persuade capital elsewhere in the world that it would be better off if US-based income-producing investments while exchange rates find their true levels. Capital controls in Asia and elsewhere will wobble in 2017 as market realisation reassess themselves. Expect more inflows into US markets where investors will look to sit out the storm amid the comparative calm of a growing American economy.

**Don’t forget Asia***

The narrative surrounding China’s economy shifted from “opportunity” to “risk” after the financial crisis, as all the upbeat arguments about stellar wealth creation were replaced by angst over indebted local governments and state enterprises. The gloom is overdone: while the US and China are inescapable – but so too are the more intangible lifestyle and social shifts that are influencing how people use property.

**The outlook for Asian economies remains positive***

- Expect more outflows into US markets where investors will look to sit out the storm amid the comparative calm of a growing American economy.
- China’s economy is expected to continue growing, with forecasts predicting modest growth.
- Asian economies are expected to continue growing at a moderate pace, with some nations seeing more rapid growth.
- Expect more inflows into US markets where investors will look to sit out the storm amid the comparative calm of a growing American economy.

**Future view***

Prime residential price forecast 2017

<table>
<thead>
<tr>
<th>City</th>
<th>Forecast % Change 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shanghai</td>
<td>+0%</td>
</tr>
<tr>
<td>Singapore</td>
<td>+0%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>+3%</td>
</tr>
<tr>
<td>Tokyo</td>
<td>+2%</td>
</tr>
<tr>
<td>London</td>
<td>+2%</td>
</tr>
<tr>
<td>New York</td>
<td>+1%</td>
</tr>
<tr>
<td>Monaco</td>
<td>+1%</td>
</tr>
<tr>
<td>Geneva</td>
<td>+1%</td>
</tr>
<tr>
<td>Paris</td>
<td>+1%</td>
</tr>
<tr>
<td>Dublin</td>
<td>+1%</td>
</tr>
<tr>
<td>Sydney</td>
<td>+1%</td>
</tr>
</tbody>
</table>

Source: Knight Frank's Prime Residential Survey

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**Residential Property**

The signs are that UHNWI Asian investors are set to expand their property investment requirements.

**Temporary space***

Geopolitical issues aside, the single biggest trend shaping investment patterns globally is digital disruption. To take a single example, Airbnb and similar sites have facilitated the growth of short-stay accommodation options not as a fragmentation in the global economy is sending more employees “on the road”: the latest OECD data points to close to 25% year-on-year growth in international temporary assignments. This process is set to be super-charged as firms move London-based staff around Europe – at least until there is a greater clarity over Brexit. City authorities are struggling to work out how to police this process, concerned over the impact both on the hotel sector and on full-time residents. Expect investors to focus on these emerging sectors – with the world’s leading cities the main investment targets.
DUBAI SOUTH, DUBAI
SUNA DAEKAN, KNIGHT FRANK SOUTHEAST ASIA
Set to become the emirate’s flagship urban project, Dubai South is a neighbourhood to watch. Home to Expo 2020 site, the area benefits from ongoing government spending on infrastructure projects, notably the expansion of Al Maktoum International Airport and the Dubai Metro’s Red Line (Route 2020) which, once complete, will add to the potential for capital value growth in the location. The first two residential communities, set for completion by June 2019, are expected to feature affordable apartments and townhouses with prices starting from AED350,000.

North of Runda, NAIROBI
DER WOODSMAN, KNIGHT FRANK KENYA
The influential residents’ association in the traditionally high-end suburb of Runda works hard to ensure that new developments are in keeping with the character of the area, which was first developed in the 1970s to house United Nations staff. However, there is a scarcity of plots and development opportunities, leaving buyers with limited options. The new northern bypass has now opened up the area north of Runda, leading to the sudden and rapid expansion of the suburb into the surrounding coffee fields. The diplomatic community is already leasing accommodation beyond Runda in new developments such as Eden Ville, Four Ways Junction and Five Star Meadows. These new housing estates and gated compounds are well served by facilities including top schools and sports complexes, and are within easy reach of Two Rivers Mall, East Africa’s biggest shopping centre, due to open early in 2017.

Randwick, SYDNEY
MICHELLE CIESIELSKI, KNIGHT FRANK AUSTRALIA
Located on the heart of the Eastern suburbs, Randwick’s heritage-listed homes are dotted between 80 and 140 sq m of space commanding 800,000 to 1.4m yuan, while a typical villa (170 to 250 sq m) will fetch around 3m yuan.

Centro, Madrid
Humphrey White, Knight Frank Spain
The historic quarter to the east of Madrid’s iconic Puerta del Sol plaza, which stretches between Alcalá, Sevilla and Carretera de San Jerónimo, is undergoing a major transformation. Due for completion in 2018, the new Centro Canalejas Madrid will see the renovation of seven adjacent buildings, all previously occupied by Spain’s top banks. The heritage of the buildings is being carefully preserved due to their high architectural value. The development, which will be home to a 250-room Four Seasons luxury hotel, 22 exclusive residences with all hotel services included and high-end boutiques, is expected to be a catalyst for wider regeneration in the city centre.
Technology & creative industries

MEDIASPREE, BERLIN
DOROTHEA METASCH, ZIEGERT IMMOBILIEN

Set in the heart of the borough of Friedrichshain-Kreuzberg, which straddles East and West Berlin, Mediaspree is now home to The Coca-Cola Company and Mercedes Benz, which sit alongside hip clubs and the district’s most iconic landmark, the united Friedrichshain Bridge with its striking towers. Corporations are following in the footsteps of the creative industries that have already set up home here and housing demand is surging accordingly. Berlin will soon get its first high-rise skyline with an entire row of residential projects planned along the waterfront. Two-bedroom apartments start at €500,000 and demand is expected to be high.

KAMOGAWA RIVER AREA, KYOTO
NICHOLAS HOLT, KNIGHT FRANK ASIA-PACIFIC RESEARCH

Famous for its numerous Shinto shrines, Buddhist temples, gardens and palaces, Japan’s former imperial capital is attracting growing interest from property investors at home and abroad. Buyers from China, and in particular Taiwan, have been increasingly active in the new-build market, which has further encouraged a scramble for limited development land plots by developers. Underpinning demand is a strong local economy centred around TT and tourism – Kyoto is home to 7 UNESCO heritage sites – the city’s beautiful mountainous backdrop and its limited supply of quality residential product. The Kamogawa River area, around the Kyoto Imperial Palace and Shimogamo shrine, has been the epicentre for much of this development and looks well placed to outperform its neighbours.

MAJIWADA-KASARVADAVALI, THANE, MUMBAI
DR SAMANTAK DAS, KNIGHT FRANK INDIAN

After decades of being labelled as the poor cousin, Majiwada-Kasarvadavali in Thane, a city within the Mumbai metropolitan area, is now showing signs of realizing its promise. Up until a few years ago, the majority of job opportunities were in industry; now, the focus has shifted to the service and high-tech sectors, with the country’s largest technology firms queuing up to set up offices. A new metro rail line will significantly boost connectivity, and the area’s social infrastructure – premium malls, good schools and excellent healthcare facilities – is improving rapidly alongside the development of amenity-rich, high-residential projects. Around Kiritan to Kostlm for a two-bedroom apartment, property prices in Majiwada-Kasarvadavali remain very competitive – for now.

T生机ANE, BEYOGÜL, ISTANBUL
ÖZLEM ADALAY, PAKKAR & SOYER

Tophane, a neighborhood within the Beşiktaş district of Istanbul, is located within walking distance of the Bosphorus and from 2017 is home to the GalataPort Project, a major regeneration of the north of Tophane, already home to the Istanbul Museum of Modern Art, tradesmen’s workshops and Mercedes Benz, which sit alongside hip clubs, the Wishal Country Club, and the Los Angeles Tennis Club, the neighborhood’s large East Coast-style homes are attracting growing demand. High-end restaurants, new boutiques and good private clubs queueing up to set up offices. A new metro rail line will significantly boost connectivity, and the area’s social infrastructure – premium malls, good schools and excellent healthcare facilities – is improving rapidly alongside the development of amenity-rich, high-residential projects. Around Kiritan to Kostlm for a two-bedroom apartment, property prices in Majiwada-Kasarvadavali remain very competitive – for now.

MAYFAIR, LONDON
LIAM BAILEY, KNIGHT FRANK GLOBAL RESEARCH

One strategy for identifying tomorrow’s hottest investment is to start with today’s most fashionable. Following a dismal 2016 – with price falls of up to 10% and sales volumes plunging 25% – the prime central London market could eke out a convincing claim to that title. However, a little perspective is required. This is a market which has over the last 40 years delivered annual average total returns of 6%, while outperforming every major global luxury residential market. And, at its very heart, sits Mayfair, an already gilded enclave now being bulldozed and bulldozed by the addition of a range of upmarket retail, hotel, restaurant and stately home investments. Gentrification might not be the right word for Mayfair’s latest rebrand, but the area’s position as London’s leading residential address is set to be cemented over the next few years by the arrival of some of the world’s most prestigious residential developments.

SOUTH COAST, BARBADOS
ANN PORTER, KNIGHT FRANK SOUTH AFRICA

Located in Shanghai’s Pudong district, east of the historic centre, Zhangjiang has been known as an industrial area and manufacturing base since the early 1990s. But in recent years, the area has been transformed into a major residential community, following in the footsteps of neighbouring Lujiazui. As an IT hub, Zhangjiang attracts talented from the manufacturing, IT, bio-medical and new materials sectors, which is creating strong residential demand. Rapid infrastructure development has also brought people into Zhangjiang: a further five metro lines will soon pass through the area, in addition to the existing Metro Line 2. A budget of 40m yuan will buy a detached villa of around 300 sq m, while a larger home of around 1,000 sq m will command 150m yuan. Two-bedroom apartments start at around US$5m.

Zhangjiang: a further five metro lines will soon pass through the area, in addition to the existing Metro Line 2. A budget of 40m yuan will buy a detached villa of around 300 sq m, while a larger home of around 1,000 sq m will command 150m yuan. Two-bedroom apartments start at around US$5m.

Value hunters

HANCOCK PARK, LOS ANGELES
THE ALTMAN BROTHERS, DOUGLAS ELLIMAN

East of Beverly Hills, heading towards downtown Los Angeles, lies Hancock Park. Built in the 1920s around the grounds of a private golf club, the Wilshire Country Club, and the Los Angeles Tennis Club, the neighborhood’s large East Coast-style homes are attracting growing demand. High-end restaurants, new boutiques and good private clubs queueing up to set up offices. A new metro rail line will significantly boost connectivity, and the area’s social infrastructure – premium malls, good schools and excellent healthcare facilities – is improving rapidly alongside the development of amenity-rich, high-residential projects. Around Kiritan to Kostlm for a two-bedroom apartment, property prices in Majiwada-Kasarvadavali remain very competitive – for now.

WOODSTOCK, CAPE TOWN
ANNE PORTER, KNIGHT FRANK SOUTH AFRICA

Situated on the slopes of Table Mountain, this is the last remaining inner city area available for redevelopment and benefits from an Urban Development Tax Incentive scheme that encourages urban renewal through private sector investment. A mixed-use area, Woodstock features warehouses, loft conversions, new apartment blocks and a mix of brow and semi-detached homes, many of them Victorian. These latter properties in particular are highly sought after by those seeking an urban, cosmopolitan and trendy lifestyle close to Cape Town and keen to take advantage of Woodstock’s convenient transport links and popular entertainment venues. The average price of a property has risen sharply in recent years to over R1m.

The average price of a property has risen sharply in recent years to over R1m.

10TH ARRODISSEMENT, PARIS
MARK HANCOX, KNIGHT FRANK INTERNATIONAL

The 10th arrondissement, in the north-west of central Paris, combines stunning period buildings that capture the history and essence of the French capital with a hip, edgy atmosphere that appeals to a young, trendy crowd. With neighbouring arrondissements such as the 2nd and 9th commanding higher prices, the 10th offers great value in an enviably central location. The wide boulevards, walkways and bars and restaurants sprouting up along the Canal St Martin – a car-free zone at weekends, to the delight of cyclists and pedestrians – combine to create a vibrant and diverse neighbourhood. There is a cosmopolitan feel about the area that attracts artists, fashion designers and those working in the creative industries, which has in turn led to a wave of trendy affordable boutiques. A 200 sq m apartment will cost between €750,000 and €950,000.
Many happy returns

Private investors are taking advantage of the strong long-term performance of commercial property—and exploring new sectors of the market

ANTHONY DUGGAN
HEAD OF CAPITAL MARKETS RESEARCH

Although many people will have been relieved to see the back of 2016, global commercial real estate remained a beacon of light throughout the year for both institutional and private investors. Transaction volumes were robust and returns favourable when measured against other asset classes.

Private investors have been key players in the global market for some time now, accounting for 20–25% of all transaction volumes over the last 10 years, but this rose to nearly 30% in 2016. From a performance perspective, it is easy to see the attraction. According to a survey (covered in more detail overleaf) found that

- While the return on global equities has been nearly 20% in 2016, a robust 24% in 2013, with star performers including Indonesia (15.3%), Ireland (14.7%) and the US (12.0%), this rose to nearly 30% in 2016. From a performance perspective, it is easy to see the attraction. According to a survey (covered in more detail overleaf) found that
- The income component makes returns on real estate more predictable, with real cash flows providing a cash return regardless of the underlying change in asset values
- The income component makes returns on real estate more predictable, with real cash flows providing a cash return regardless of the underlying change in asset values. Over the same 10-year period global bonds have benefited from similarly low levels of volatility as real estate, but the return profile has been markedly weaker over the past five years.

Looking ahead, investors are understandably cautious given weak global economic forecasts and the expectation of further geopolitical uncertainty. But despite this, significant appetite for real estate investment portfolios continues, with an increasing number of private investors looking to increase their allocations to property over the next 12 months and highlighted a number of reasons why, not least the income component offers for acquiring tangible assets outside their domestic economy, and the opportunity to exercise total control over their assets.

Where will these investors be looking in 2017? Knight Frank’s latest Global Cities commercial property report highlights a number of key trends for international real estate investors in the current economic environment. These include the rise of real estate as part of a wider and deeper “real asset” portfolio, alongside infrastructure investments and other physical assets, which share many of the characteristics that make property so attractive.

Also highlighted, and of particular relevance to private investors, is the rise of investment-quality “buildings with beds”. The most obvious example in this category is hotels, but clients are increasingly asking for advice on the development, purchase and management of assets such as private rented sector residential investments, student housing, senior living and healthcare facilities. Under-supply of such assets, combined with clear demographically-driven demand trends, is attracting interest from both investors and from developers who are creating products suitable for real estate investment portfolios.

Alongside these longer term trends, on page 44 we turn the spotlight on a sector we feel will become more and more attractive to private investors over the next few years: urban logistics. This sector is undergoing a revolution as rapid urbanisation drives the growth of global cities at the same time as trends such as the explosion in e-commerce translate into demand for ever greater volumes of goods to be moved and delivered. This offers some compelling reasons to invest. 
A family affair

Diversification and stability are the key drivers for family offices looking to invest in commercial property, as the results of a unique new survey by Knight Frank show.

ANTHONY DIUGAN
HEAD OF CAPITAL MARKETS RESEARCH

In order to better understand the motivations behind commercial property investment habits of family offices, we have created the first Knight Frank Family Office Investment Trends Survey.

The survey’s respondents – identified by the Knight Frank Private Client team – are family offices actively involved in commercial property investment, although the length of time they have been investing varies. All were interviewed directly.

The results, considered in conjunction with the findings from our long-running Attitudes Survey, continue to give us a unique understanding of how UHNWIs view and invest in commercial real estate.

Key asset

Commercial real estate is an important asset class for private investors, with 25-30% of global transaction volumes attributed to private buyers. Our 2017 Attitudes Survey data echoes this and shows that a full quarter of private client wealth is allocated to real estate investments (including their primary residence and second homes). Interestingly, this varies significantly from region to region, with Middle Eastern investors holding the highest proportion (35%) and North American investors the lowest (11%).

Investment drivers

When we asked respondents to our Investment Trends Survey why they invest in commercial real estate, the majority stated that diversification was the primary driver. Real estate is used in their portfolio to provide a stable income component. A number expressed interest in investing in new market areas or sectors, but felt that a lack of expertise was holding them back. One potential solution would be to work with a specialist asset manager to provide a correctly structured segregated fund, giving both control and local market capability.

Indeed, one investor was using a fund vehicle to gain exposure to a new market with the intention of increasing direct investment once they had gained a level of knowledge that allowed them to feel comfortable picking appropriate assets and property managers.

A few of our respondents were open to club deals with “friends and family”, but usually on condition that they retained the controlling stake.

Controlling interest

Most respondents held their real estate assets directly rather than handing over their capital to investment managers or real estate funds. There was a clear preference to “know what they own” and, importantly, to “have full control” of their investments.

A number expressed interest in investing in new market areas or sectors, but felt that a lack of expertise was holding them back. One potential solution would be to work with a specialist asset manager to provide a correctly structured segregated fund, giving both control and local market capability.

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In-house expertise

A member of the more established family offices discussed their decision to open a dedicated office to manage their real estate investments, enabling them to bring their asset management and due diligence processes in-house. Typically, such offices began on a limited scale with just a few staff, but grew as assets under management increased.

Importantly, it was felt that this “on the ground” resource gave them an advantage in terms of sourcing opportunities and building a portfolio.

Sector selection

Our survey also identified office property as the most popular sector for investors’ portfolios, a finding borne out by both long-term global transactions data and the results of our Attitudes Survey.

It was apparent that some investors were nervous about the structural changes under way in the retail sector, although those with experience of this particular asset class (from their primary business, for example) were very happy to have exposure. Others were looking at it selectively.

The survey findings also showed, as we have observed throughout our advisory work, that institutional real estate is becoming increasingly attractive to our family office clients.

Risks and returns

We asked respondents to give us their view of the current risk/reward opportunity in their market area in 2017. The average score was six out of 10 (behind 10 was best). Most family offices see further value in the market, albeit with some concerns about the general economic climate.

In particular, a number were “worried about pricing of core real estate in certain markets” and felt, correspondingly, that “stock selection was key”. When asked to clarify what, in their view, made negatively impact pricing in 2017, a number identified “interest rate pressures”, “occupational demand” and “low forecast rental growth” as their primary concerns.

Other respondents were more upbeat and suggested that, given the continued economic and political uncertainty, concerns from investors could be to buy “the best that is available”. Indeed, one investor commented: “We keep our focus on London, as this is where we see the best investment opportunities.”

Appetite for investment

Despite an element of caution expressed from some parts, the clear message was that respondents had a healthy appetite for further commercial real estate investment in 2017. Most talked in terms of large double-digit percentage target increases in the level of assets under management.

It was clear that the majority still felt “under-invested in property” and were on a journey to “balance overall portfolios.” Typically, respondents were looking to secure let sums from £20 million to £50 million, although a number talked of scaling up to over £200 million, driven both by a desire to get money invested more rapidly and a perception that the reduced level of competition from other investors at this larger let size might lead to better yields.

However, it was clear that any investments would be closely scrutinised, with some being so averse to spend money unless the right opportunity arose.

Location, location

Respondents’ preferred locations varied considerably depending on their domicile, with Australia, Africa and the US all cited as investment targets for 2017. The majority, however, continue to look to Europe for their allocations, with the UK and Germany the most popular individual countries. The reasons for this included the scale of the market, relative liquidity and the depth of opportunities available.

Once again, these results reflect the outcome of our Attitudes Survey, where the majority of respondents favoured investment in Europe.

Long-term view

The results of this first Investment Trends survey clearly show that family offices’ relationship with commercial property will only strengthen further over 2017. The asset class remains an important diversifier from their domestic economy and a “core” asset capable of providing both a store of wealth and a stable income component.

Private investor allocations are expected to increase with significant dry powder targeting the sector. Offices remain the most popular sector although logistics is increasingly rising up the wish list as the strong fundamentals become clearer.

As already stated, markets as diverse as the US, Africa and Asia were identified as potential hotspots. However Europe is, by some margin, the preferred destination of global allocations for 2017, with the UK remaining top of the country list, despite the ongoing uncertainty of Brexit.
The surge in online shopping and the demand for ever shorter delivery times is creating opportunities for private property investors in a new sector: urban logistics.

ANTHONY DUGGAN
HEAD OF CAPITAL MARKETS RESEARCH

E-commerce requires a significant number of real property assets to function efficiently, creating a global pricing strategy and, crucially, getting goods to the right place at the right time. For retailers, this means that speed of delivery has overtaken price as the main competitive battleground. For suppliers to car parts, trade counters and storage (to name just a few), it is not just e-commerce driving demand for this asset class – other businesses are looking to establish bases near their customers, too. First, as e-commerce grows, so too does the need to service these expanding communications with last-mile delivery. Retailers and parcel delivery firms will continue to develop their urban logistics offer to meet consumer demand, and the need for more appropriate facilities will grow commensurately. This is expected to drive occupancy rates and positive rental growth.

Second, vibrant and growing cities need a network of suppliers to function efficiently. From fresh food suppliers to car parts, trade counters and storage (to name just a few), it is not just e-commerce driving demand for this asset class – other businesses are looking to establish bases near their customers, too. Third, as cities grow, the pressure on land and the competition from different uses intensifies. We view urban logistics as a potentially attractive entry point for gaining exposure to land in major urban centres. Investors can adapt a strategy of buying this asset type to provide income and capital growth potential in the short to medium term, with longer term prospects for change of use, depending on local regulations, to a higher-value usage such as housing.

It is interesting in the light of all this to observe how pressure on land in urban centres is already leading to a shortage of suitable logistics facilities. A very clear example is in London, where government data shows that over half of all industrial land is designated for logistics. Investors are therefore looking to establish bases near their customers, too. The upshot of all this is a new focus on reviewing and upgrading logistics networks. See by way of illustration John Lewis, one of the UK’s leading retailers, which 10 years ago was directing 75% of investment towards its stores. Today, three-quarters of investment goes into distribution and IT, and just 25% to stores. The surge in online shopping and the demand for ever shorter delivery times is creating opportunities for private property investors in a new sector: urban logistics.

Going the extra mile

While both are compelling investment opportunities, it is these urban, local logistics facilities that we see as the greatest potential for private investors looking to secure long-term returns and looking to tap into the opportunities created by the rise of e-commerce and increasing urbanisation. This translates into a number of compelling investment prospects on both the demand and supply side.

First, as e-commerce grows, so too does the need to service these expanding communications with last-mile delivery. Retailers and parcel delivery firms will continue to develop their urban logistics offer to meet consumer demand, and the need for more appropriate facilities will grow commensurately. This is expected to drive occupancy rates and positive rental growth.

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It is interesting in the light of all this to observe how pressure on land in urban centres is already leading to a shortage of suitable logistics facilities. A very clear example is in London, where government data shows that over half of all industrial land is designated for logistics facilities (this includes logistics facilities has been lost to alternative uses over the past 20 years. This pressure on supply is stimulating occupier demand, and strong rental growth and asset valuations. With availability of housing such a hot topic for many expanding suburbs, this trend looks unlikely to reverse.

While few would claim that urban logistics is a glamorous real estate sector, it is looking increasingly attractive to private investors. Strong structural occupier demand and significant rents on retail sites combined with the opportunity to gain exposure to land in growing cities, makes for a very compelling story.
While investment decisions will always depend on the individual — their appetite for risk, their level of experience and expertise and the level of return they’re looking for — away from the main global gateway cities such as London, New York, Tokyo and Paris, a growing number of exciting locations is emerging, with all the ingredients needed to make them attractive long-term commercial real estate investment choices for the private investor.

Over the following pages we highlight seven cities that are leading the way in developing a compelling mix of education, lifestyle, infrastructure, technology and real estate and, in the process, becoming the kind of vibrant, attractive locations where people want to work, shop, play and live. While each of the cities featured here is unique, they do have certain characteristics in common. In particular, the rapid growth of technology companies is driving a wave of regeneration and development that echoes through all real estate sectors. Cities that can provide a favourable environment for this type of business are seeing significant investor interest.

A large part of the attraction for these in-moving tech firms is the prospect of becoming part of an ecosystem that has been designed to attract the best talent. Education is a critical component, ensuring a ready supply of talent, either: Ayden, for example, handles online payments for clients including Facebook, Airbnb and WeWork, and Uber, Netflix and Tesla are among the major players opting to make Amsterdam their mainland Europe headquarters. There’s no shortage of home-grown talent, either. A10 Amsterdam, for example, handles online payments for clients including Priceline, Netflix, Spotify, Uber and Airbnb, and is valued at over US$1bn — the Netherlands’ first “unicorn”. Add to this its consistently high score as one of the world’s most livable cities, plus the quality of its transport links, both via Schiphol airport and everland to the rest of continental Europe, and you have a compelling case for the continued success of Amsterdam as a home for both business and leisure.

**AMSTERDAM: THE NETHERLANDS**

Amsterdam is working its way up the ranking of European tech locations and was rated one of the five most innovative cities in the world in the 2015 CITIE survey. There is a thriving start-up scene, a host of co-working spaces including B, Amsterdam, WeWork and Spaces, and Uber, Netflix and Tesla are among the major players opting to make Amsterdam their mainland Europe headquarters. There’s no shortage of home-grown talent, either. Ayden, for example, handles online payments for clients including Priceline, Netflix, Spotify, Uber and Airbnb, and is valued at over US$1bn — the Netherlands’ first “unicorn”. Add to this its consistently high score as one of the world’s most livable cities, plus the quality of its transport links, both via Schiphol airport and everland to the rest of continental Europe, and you have a compelling case for the continued success of Amsterdam as a home for both business and leisure.

**MIA MI: US**

Of all the hotspots and a host of other cities to watch, see the latest Knight Frank Global Cities report.

**BENGALURU: INDIA**

Touted as the IT and start-up capital of India, Bengaluru has emerged as an attractive destination for multinational enterprises looking to set up innovation centres and tap into a fresh pool of technology talent. In-movers including Uber, Airbnb and Visa now sit alongside a healthy start-up scene, with home-grown tech success stories such as Flipkart, InMobi and Micromax now all part of the billion-dollar “unicorn” club. Importantly, the city has a number of top-class global research institutes such as the Indian Institute of Science, as well as many state-owned research organizations that are turning out the innovative cultures and workforce to rival today’s growing cities. As global enterprises look beyond the established hubs to find new talent pools and centres of innovation, Bengaluru has built a strong eco-system and the momentum to emerge as a leading option for both domestic and international businesses.

**BERLIN: GERMANY**

As a model for successful regeneration, Berlin is currently riding high. The two central districts of Mitte and Kreuzberg have led the regeneration wave, with Friedrichshain being the most recent to take on the creative mantle. Even Berlin’s oldest districts are not immune. Prenzlauer Berg, with its training cultural scene, boutiques and vibrant nightlife, is also now becoming increasingly gentrified. Recent years have seen an explosion of start-ups with more than 40,000 new companies incorporated each year. Crucially, the cost of living in Berlin is one of the lowest in Germany and compares favourably with the rest of Europe — for example, it’s around a third less than London — encouraging a young and vibrant culture. More than 174,000 people moved to the city in 2014, over half of them from overseas.

The city’s economy is now one of the best performing in the country, driven by both tourism and services.
MEXICO CITY: MEXICO
Supported by a broad base of corporate industries such as automotive, telecommunications, logistics and retail, Mexico City continues to attract significant foreign direct investment as the gateway to emerging markets in the rest of Latin America. The city’s growing middle class is spurring significant redevelopment and regeneration. Large mixed-use projects are transforming neighbourhoods including Paseo de la Reforma, Polanco and Insurgentes and include modern housing and offices as well as shopping centres. Indeed, the office market has grown by 200% since 2000, with 170 new buildings. And with a new international airport under construction, Mexico City is investing in the future.

The first phase of development, scheduled to be completed in the early 2020s, is expected to provide capacity for up to 50 million passengers and 500,000 flights a year. This has the potential to rise to 120 million passengers and 1 million flights by 2025.

AUSTIN: US
Austin is fast becoming a global model for forward-thinking cities and has gained the title of Silicon Hills, the Silicon Valley of the south. It’s not hard to see why: its innovative mindset, entrepreneurial-friendly environment, enterprising focus and unique culture has transformed it from a government-dominated economy into a technology leader. Companies with bases in Austin range from tech titans such as Apple, Google, Facebook, Oracle, Cisco Systems, Dell and Hewlett-Packard through to small-stage and start-up ventures. This environment, along with the steady flow of graduates from the University of Texas and other nearby schools, plus in-migration that is increasing the population by 350 people a day, is attracting further corporates looking for a young and educated workforce. A wave of construction is attempting to keep pace with demand, with a focus on both workspaces and co-working environments and high-density multifamily housing.

MELBOURNE: AUSTRALIA
With a population forecast to surpass Sydney’s by 2026, Melbourne is a thriving city that has undergone significant transformation over the last decade. In particular, there is strong growth in city centre living; unsurprising, given that the Economist Intelligence Unit rates it as the “world’s most liveable city”. In addition, the city is now the second-largest office market in Australia (behind Sydney), with the number of employees based in the central business district (CBD) increasing by more than 24% over the past 10 years. This has led to a wave of development activity with several large mixed-use schemes already delivered and a number in the pipeline, including the 30-year renewal project at the Fisherman’s Bend precinct, which will cover 450 hectares in Port Melbourne, south-west of the CBD. The scheme will include new high- and medium-density commercial and residential development for up to 80,000 residents and a working population of 60,000 by 2046. The continued emergence of these major projects provides investment opportunities of a scale and diversity to appeal to large investors, helping to maintain Melbourne’s position as a primary destination for global and domestic capital.
In 2016 investment grade wine finally knocked classic cars off the winner’s podium in the Knight Frank Luxury Investment Index (KFLII). The Knight Frank Fine Wine Icons Index, compiled for us by Wine Owners, recorded blistering growth of 24% in 2016, compared with a relatively lacklustre 9% increase in the value of the Hagerty Top Index, which tracks the performance of the world’s most desirable classic cars.

Wine’s stellar performance was driven by exceptionally strong growth in key areas across the world and in particular the resurgence of the top Bordeaux chateaux, which form the backbone of most investment cellars, says Nick Martin of Wine Owners. “In 2015 we saw growth of around 8% for the whole of the Bordeaux region, off the back of steep declines in 2012 to 2014 following the bursting of the Chinese-induced Bordeaux bubble in late 2011.

“But 2016 was completely different. The top Bordeaux blue chips drove the entire market, growing 5% to the end of June. Brexit turbo-charged the market due to the devaluation of sterling, fueling more positive sentiment into a market that had already been gathering significant momentum. The first growths rose a further 18% between June and November 2016, resulting in an annualised performance of over 30%.”

Looking forward, Mr Martin believes Bordeaux will continue its upwards trajectory in 2017, although gains could be less broad based as buyers start becoming more focused on value. Prospects look favourable elsewhere in France, too. “Blue chip Burgundy continued its strong run, rising a further 30% in 2016, driven by a number of short recent vintages and expectation of price rises ahead of the much touted 2015 vintage release,” he says. A case of 1988 Romanée-Conti (pictured right) was the most expensive wine to sell at auction last year when it went under the hammer with Bonhams in October for £129,250.

California (up 34% in 2016) also continues to defy gravity, driven by its cult wines, as Mr Martin explains. “US collectors and direct-to-consumer wine ‘clubs’ continue to support the market as they buy into the scarcest wines irrespective of release prices, in the knowledge that having an allocation at first release is prized and secondary market prices are likely to see a jump after release.”

Northern Italy – and Piedmont in particular – also performed very strongly, says Mr Martin. “The qualitative improvements in Barolo, and the parallels with the development of the market in Burgundy a decade or two ago, have captured the imagination of the collector community. The market rose 28% and is likely to perform similarly over the next year.”

In addition, a growing interest in Piedmont vineyards from overseas investors should help to drive further growth, he expects. The 143-year-old Vietti winery was sold to the US convenience store-owning Krause family last year, the family’s second such purchase in the region.
THE DRIVE TO QUALITY

For classic cars, “2016 was the year of the slowdown,” says HAGG’s Dietrich Hatlapa. For anybody not familiar with the market, that looks like a slightly downbeat claim as annual growth was still a very respectable 9%. But set against total growth of 12% over the past five years, it is clear that the market has dropped down a few gears.

“Those who were in it for the money have moved on,” says Mr Hatlapa. “The market is now more in the hands of the collectors and specialists, which I think is good news for the real enthusiast.”

According to data from the Kilnston 500, another market-tracking index, of the cars put up for sale at the top international auctions during 2016, 70% sold by number – down from 84% in 2015 – while the proportion of cars selling for below their low estimate rose by 20%.

The pattern is the same in the US, says Brian Rabold, Vice President of Valuation Services at specialist insurer Hagerty. The firm’s Blue Chip index, which tracks the value of 25 of the European, US and Japanese cars most prized by US collectors, fell by 1% last year. “Over the past year or so we’ve seen a shift from sellers to a buyers’ market,” he says. “People are becoming more selective. Last year there were 26% fewer auction sales of cars over USD1m in North America.” He also notes a shift in interest towards new models like the Porsche 911R. “Our top 1,000 clients are buying cars from the 2000s like never before.”

But despite the slowdown, the recent cars in the right condition with the most desirable provenance will continue to set world records, says Mr Hatlapa. Simon Kilnston, who set up the Kilnston 500, agrees: “Yes, the pace of deal making is noticeably slower, and the headline figures don’t convey that the underlying mood is much more reflective and uncertain amongst buyers and sellers. But until there are better, more mobile and tax efficient havens for cash, the market is likely to remain active and capable of reaching new peaks when fresh discoveries emerge from hiding.”

As if to prove the point made by Mr Hatlapa and Mr Kilnston, a Ferrari 1957 250 SS Sport became the most expensive car to go under the hammer ever, in euro terms at least, when it was sold by Artcurial in Paris for €32m.

In the US, the annual Monterey sales also delivered new benchmarks. An historic 1962 Shelby Cobra went for over USD38m for another 250 GTO sold by Bonhams for USD28m.

The sparkliest was the sale of the Oppenheimer Blue, a vivid blue 14.42-carat diamond sold by Christie’s Geneva for the equivalent of almost USD51m, making it the most expensive jewel ever sold at auction. Blue seemed to be the colour of 2016. “This has certainly been the year of the Kashmir sapphire,” says Jean Ghika, Head of Jewellery for Bonhams UK and Europe. “They performed well at our auctions in London, New York and Hong Kong and are among the most highly prized gems for serious collectors.”

The biggest contributor to last year’s slide was art, which dropped by 14% according to the Wealth Report. “Since the global financial crisis people have been much more wary of overpaying for things.”

By the end of 2016, however, the market looked more positive with November’s New York sales, which traditionally mark the end of the auction year, attracting strong bidding. The top price of the year was achieved by Christie’s when it sold one of Claude Monet’s iconic Grainstack paintings for USD45m, way above its USD41m estimate.

Other big sellers included Girls on the Bridge by Edward Munch, which was sold by Sotheby’s for USD44m – a big jump from the USD16m it fetched when sold in 2006 – and Untitled XVII by the Dutch American artist William de Kooning, sold by Christie’s for USD46m, record for the artist.

At the top end, seminal works that are fresh to the market will always do well,” explains Ms Raikhel-Bolot. “Two works from very different parts of the art spectrum exemplified this trend earlier in the year. Showing that the Old Masters still have life in them, Peter Paul Rubens’ Lot and His Daughters was sold by Christie’s London for £45m, the second-most expensive work to sell at the artist after his Massacre of the Innocents, which made almost £45m in 2002. And Outstretched by the modern US artist Jean-Michel Basquiat set a record for the artist when it fetched USD57m with Christie’s New York in May.

Painting by Numbers

Even the best efforts of wines and classic cars couldn’t prevent KFLII, which tracks the performance of 15 collectable investments of passion, posting overall growth of just 2%, its weakest performance since 2009’s 2% drop.

The biggest contributor to last year’s slide was art, which dropped by 14% according to auction data analysed for The Wealth Report by Art Market Research. There was, however, a marked variation in performance across different genres.

European Impressionist painters, such as Matise and Corot, saw the largest annual drop in the value of works sold at auction, while 19th-century artists like Constable and Turner rose by 19%. Modern and contemporary works, which have previously been the stellar performers in our art index, recorded drops of 8% and 2% respectively.

However, Viola Raikhel-Bolot, Managing Director of 1858 Ltd Art Advisory, says auction results are only part of the story. “They only represent 40% of the market and this year there has been reluctance among vendors, perhaps concerned by Brexit and other economic worries, to consign their best works to auction unless they really had to sell.”

At the lower end and middle of the market, however, there has also been more optimism. “Since the global financial crisis people have had much more of an attitude of saving for things.”

The wealth report also predicts that due to Brexit, the once-famed London art is expected to become less international in the coming years, which will have a big impact on the art market in the UK. However, there are still many opportunities for art investment, especially for those who are looking for a long-term investment with a steady growth potential.

The report also predicts that the art market will continue to grow in the coming years, with a steady increase in the number of buyers and sellers, and a growing interest in emerging artists and genres.

The report concludes that the art market is still a strong investment opportunity for those who are looking for a long-term investment with a steady growth potential. However, it is important to be aware of the risks associated with art investment, such as fluctuations in the art market and the potential for loss of value.
All passion spent

When it comes to luxury purchases and investments, the heart can often rule the head – to the buyer’s cost. The Wealth Report looks at some salutary examples where things have turned out not to be quite as they seem...

SHANE GLEGHORN
PARTNER, TAYLOR WESSING PRIVATE WEALTH TEAM

P rovenance and attribution are vital when buying a classic car, a work of art or an antiquity. A connection with a well-known historic collection, authorship by a renowned artist, or a CV that includes setting the lap record at Le Mans, for example, can enhance desirability – and add significant value. Of course, the reverse is also true and in those cases where provenance or attribution turn out to be incorrect, the consequences of having purchased a mistakenly or falsely described asset can be very significant indeed. When, for example, one of our clients discovered that the artworks they had bought based on the understanding that they were by a highly regarded artist whose works were to be found in a European Royal collection were actually by a minor artist of no significance, the impact was huge both emotionally and, of course, financially.

Buyer beware

Navigating between fact and sales hyperbole to work out where the truth actually lies can be challenging, particularly as even pre-eminent experts can have differing opinions. Take the version of Caravaggio’s The Cardsharps sold at auction for £42,000 after being catalogued by Sotheby’s as the work of a follower of the artist. The buyer, a renowned art scholar, later declared that the painting was by Caravaggio himself, and valued it at £20m. The prior owner then tried to sue Sotheby’s for allegedly giving him negligent advice about the painting’s value. However, the court held that the auction house had, at the time of the original sale, reasonably come to the view that the painting did not have Caravaggio “potential”.

It is also a case of “buyer beware” in the classic car market. When paying a premium for provenance, corroboration is key to preserving and enhancing the future value of the car – as in clear documentation to support that provenance. Paying for the time and expertise of a marque specialist, or an expert from the manufacturer, is a wise upfront investment. Having been involved in defending a claim of misrepresentation in relation to the sales particulars of a rare Lamborghini Miura, we are all too aware of the arguments which can arise.

Legal title

Legal title is an aspect that is often overlooked. In the person selling you those “pristine matching numbers” or that “magnificent example of an Old Master’s oeuvre” really the legal owner? Do they really have the right to complete the sale? And how can you be sure? With no centralised register to show who owns what, it is not surprising that ownership disputes should arise. Buying from a well-regarded source can offer some protection, but not always.

One example we encountered involved a client who became the victim of a calculated fraud, where a genuine artwork was swapped with a forgery. The fraudster consigned the original for sale by auction, leaving the client unaware that the artwork hanging on their wall was a fake. Such a scenario shows how a number of people – the legal owner, the auction house and the buyer – can all find themselves victims of fraud.

Buyers of classic cars should ask for documentation such as bills of sale, legal certificates or records held by the original manufacturer. They should also ensure there is no outstanding finance that might lead to a competing claim for ownership. Similarly, those purchasing yachts should check for existing liens: rights over the asset in favour of a creditor. If the creditor retains the lien post-purchase, the yacht could be detained or sold.

Insurance

One final word of caution. Whether you are a buyer or a seller, be certain to have insurance that runs either right up to the point of sale, or from the very moment ownership is transferred. Should your classic car happen to burst into flames just as it is being shown to a potential buyer, as happened to one unfortunate Bentley owner, the situation will be made slightly less heart-breaking by the knowledge that your investment has not entirely gone up in smoke.

Specialist insurers can provide bespoke arrangements, including those where a range of assets is covered under one policy. They can also make sure you’re covered if, for example, you decide to take your Bizzarrini GT Strada for a spin on the track at the Goodwood Festival of Speed, or to loan your prized Bernard Buffet – the legal owner, the auction house and the buyer – can all find themselves victims of fraud.

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Indeed, transportation is an area where it pays to read the fine print. In the case of Konishi’s Breguet Sympathique clock being exhibited was damaged in transit. The owner claimed both the cost of repair and the depreciation in value caused by the damage. However, the courts only awarded the cost of repair, holding that there was no real depreciation in value because there had been previous repair work of which the owner had been unaware, and the damage was not visible to the naked eye.
The visceral thrill of driving or sitting in the passenger seat of a gorgeous classic car. Contemplating the intricate brushstrokes of a painting by one of the world’s greatest artists. Being dazzled by the flawless gems in an amazing piece of jewellery worn by somebody sitting opposite you in a fine restaurant. Admiring the craftsmanship of a classic chronometer on your wrist.

All of these feelings help to explain why “personal enjoyment” was considered the number one reason why UHNWIs collect and buy luxury assets, according to the respondents who took part in The Wealth Report Attitudes Survey this year. It’s pretty obvious really: we buy things that will give us great pleasure.

Very often, of course, that pleasure is clearly connected to one of our senses – the taste of a great bottle of Bordeaux, the visual beauty of a Van Gogh, the sound of a gurgling V8 or rasping V12 engine. At other times, it might be more to do with our bank balance or our ego.

As the previous article on the performance of luxury asset classes clearly showed (page 50), some of these “objects of desire” also turn out to be shrewd investments. So it’s no surprise then that “capital appreciation” is now the second most important motivating factor when making a purchase, according to our survey respondents – although many people still find it hard to understand the rationale for buying wine when you have no intention of drinking it.

The “status” that ownership brings was in third place. But close behind this top three were more cerebral or social benefits that included “becoming part of a like-minded community”, “intellectual curiosity” and “becoming an expert”.

Community spirit

Buying into a sense of community might sound like an incongruous idea in the context of acquiring a luxury sailing yacht – after all, there could hardly be a better way to get away from it all than by taking to the high seas – but, says Klaas Meertens, owner of Oyster Yachts, it is an important factor for many of the firm’s clients.

This is reflected in the huge enthusiasm of Oyster owners for perhaps the most involved customer-participation event organised by any seller of luxury assets: a 27-month, 27,000-mile circumnavigation of the world. Over 30 owners have signed up for the fully supported event that started in Antigua in January 2017 and will finish back there in 2019.

“We may organise the Oyster World Rally, but with all the friendships found in this exclusive adventure, truly it belongs to the participants. We’re just facilitators,” says Oyster CEO David Tydeman. “Becoming one of the select few to circumnavigate the globe, particularly in the company of others sailing the same class boat, creates a unique bond.”

Although it would be hard to consider even the least costly Oyster yacht as anything other than a
luxury purchase – they start from around £900,000 on the water and go up to over £10m for the flagship Oyster 118 model – owners come from a wide variety of backgrounds, and that is part of the attraction of the events like the World Rally, says Mr Tydeman. “There is a lot of social mixing going on. People leave their egos behind.” Not all the events attended by Oyster owners are quite so extreme. Having originally bought the firm as an investment opportunity, Mr Moetens caught the sailing bug himself while attending a superyacht regatta sponsored by the luxury Italian knitwear brand Loro Piana. A clever handicapping system means different-sized boats can all compete against each other at regattas which are usually held in either the Mediterranean or the Caribbean.

Pier Luigi Loro Piana, Deputy Chairman of Loro Piana, has enjoyed various incarnations of his boat, My Song, has enjoyed various incarnations. “One of the unique aspects of the sailing community is that it doesn’t seem to matter whether you are a carbon-racing yacht such as Mr Loro Piana has done,” says Mr Tydeman. “Sailors are equally passionate about what they think is the best boat and what they should do with it, and they enjoy changing their minds – I’ve watched wealthy owners changing their minds half the size.”

An egalitarian affair
Classic cars are another example where ownership has the potential to become an egalitarian affair, says enthusiast, racing driver and leading London dealer Gregor Fisken. “I’ve had a captain of industry, someone who’s owned their own horses can be a bit reticent about joining a syndicate (which costs around £2,000 to £5,000), but once they do they generally wonder why they didn’t do it earlier.”

Contrary to what some might believe, owning a racehorse should not be seen as an investment, even better together
Taking a share in a racehorse is perhaps the ultimate example of luxury assets creating a sense of community and shared exhilaration. Harry Herbert, Chairman of Higgers Racing, one of the first and most successful racing syndicates – organisations that enable small groups of people to enjoy owning some of the world’s best horses – says some of his members are wealthy enough to buy their own horses but nevertheless choose to join a syndicate because they relish the experience of enjoying a win with the other owners. “People love celebrating together. I see that buzz time and time again,” he says. “I think it’s an almost primal thing that can become very addictive. Some people who’ve owned their own horses can be a bit reticent about joining a syndicate (which costs from around £2,000 to £5,000), but once they do they generally wonder why they didn’t do it earlier.”

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No one might believe, owning a racehorse should not be seen as an investment, even better together
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## Databank: the numbers behind the trends

The 2017 Attitudes Survey results are based on responses from almost 900 of the world’s leading private bankers and wealth advisors, representing over 10,000 clients with a combined wealth of around $US2 trillion. Wealth distribution numbers are provided by New World Wealth and show historical and forecast growth across five wealth bands at regional, country and city level.

### The Attitudes Survey data

**Wealth management, succession, education and investment issues**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Africa</th>
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<th>Australia</th>
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**What’s the main reason for the upward trend in philanthropy?**

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**And which factors are significantly less important to them?**

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## Through to school

The process of learning can in itself become a real luxury for some UHNWIs, he observes – and it’s one that money alone can’t buy. “Going back to being a student, choosing to learn for the pleasure of learning can be a very refreshing process and is often a large part of the collecting experience. As a gallery we focus very much on educating people on the medium, whether it’s via catalogues, talks or online videos – we’ve found our clients really love it.”

Sharing their collections with the wider public, via loans or gifts to galleries, or even setting up private museums, is an extension of that scholarship process, adds Mr Huxley-Parlour. “It turns it into philanthropy." Being able to give something back – yet another example of the benefits through Highclere has produced horses like Harbinger, Tamarisk and Petrushka that have sold for many millions of pounds, says Mr Hufbauer. “Obviously if we sell horses from a syndicate for much more than we bought it for then the owners will benefit, but it’s not generally a way to make money.”

## Back to school

A sense of scholarship and intellectual curiosity can be another driving force for collectors, particularly those in the art and car world. Graeme Fookes says many of his clients turn into amateur historians, researching the history of their cars and their previous owners, and becoming in the process experts on the model and marque.

“It’s a recognised phenomenon in the world of art, too. Recent high-profile examples have included the sale of the late David Bowie’s highly regarded art collection, and Tate Modern’s Radical Eye exhibition, of some of the photographs owned by Sir Elton John, selected from what has been described as one of the world’s greatest private collections.

Interviewed about his collection, Sir Elton admits that when he first started buying photographs after coming out of rehab in 1990 he knew very little about the genre, and was simply drawn to the images. However, as the collection grew, so his depth of knowledge increased, and he now considers himself something of an expert.

Giles Huxley-Parlour, co-owner of London’s Beetles & Huxley gallery, which, like a number of the top photography dealerships, has sold pieces into Sir Elton’s collection, says that kind of journey, albeit mostly on a smaller scale – the musician reportedly has over 5,000 photographs – is common among his clients.

“Most people begin their collections because they have a house to decorate and walls to fill,” says Mr Huxley-Parlour. “Often they’ll start with a mainstream photographer whose work they know, but then they discover a world of opportunities. They start to educate themselves, and they graduate to works that are more sophisticated.”

## Often they’ll start with a mainstream photographer, but then they discover a world of opportunities, start to educate themselves and graduate towards works that are more sophisticated.

![Image](Image 219x39 to 577x340)

**Back to school**

Back to school
### The Wealth Report

**DataBank**

- **Country**: AUSTRALIA
- **Region**: ASIA
- **Country**: LATIN AMERICA
- **Region**: EUROPE
- **Country**: MIDDLE EAST
- **Country**: NORTH AMERICA
- **Country**: GLOBAL

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**Property trends**

**54% of respondents**

- **Asset Allocation**
  - **Real Estate**: 60%
  - **Collectibles**: 1%
  - **Personal Business**: 3%
  - **Residence & Second Homes**: 22%
  - **Other**: 3%

- **Property trends**
  - **Opportunity for Capital Appreciation**: 14%
  - **Education for Children**: 5%
  - **Safe Haven for Capital**: 5%
  - **Personal Security**: 7%
  - **Philanthropy (for example, donations)**: 7%
  - **Other**

- **In which parts of the world do a significant number of your clients own homes?**
  - **Africa**: 15%
  - **Middle East**: 22%
  - **Russia/CIS**: 9%
  - **Australia**: 17%
  - **Asia**: 8%
  - **Latin America**: 15%
  - **North America**: 14%
  - **Europe**: 7%
  - **Middle East**: 11%
  - **Asia**: 19%
  - **Latin America**: 7%

- **What percentage of your clients invest in commercial property at all their country of residence and in other countries?**
  - **14%**

- **What percentage of your clients invest in commercial property at all their country of residence and in other countries?**
  - **20%**

- **Which regions are your clients most likely to invest commercial property in over the next 10 years**
  - **Europe**: 16%
  - **North America**: 18%
  - **Russia/CIS**: 15%
  - **Asia**: 13%
  - **Latin America**: 9%
  - **Middle East**: 12%
  - **Africa**: 11%
### Regional wealth distribution

<table>
<thead>
<tr>
<th>Region</th>
<th>UHNWIS (Millions)</th>
<th>HNWI ($100k-1 million)</th>
<th>BILLIONAIRES (US$1,000m+)</th>
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### Country-level wealth distribution

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<th>Country</th>
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<td>2,300,000</td>
<td>410,000</td>
</tr>
<tr>
<td>australia</td>
<td>1,800,000</td>
<td>2,100,000</td>
<td>390,000</td>
</tr>
<tr>
<td>SOUTH AFRICA</td>
<td>1,800,000</td>
<td>2,100,000</td>
<td>390,000</td>
</tr>
<tr>
<td>SOUTH KOREA</td>
<td>1,700,000</td>
<td>1,900,000</td>
<td>360,000</td>
</tr>
<tr>
<td>SWITZERLAND</td>
<td>1,700,000</td>
<td>1,900,000</td>
<td>360,000</td>
</tr>
</tbody>
</table>

### Notes
- The United Nations World Population Prospects is the basis for Wealth-X's estimates. The methodology is explained in the referenced publication.  
- The data reflects the number of individuals in each category rather than wealth per individual.  
- Wealth-X has excluded for the purposes of the report on the wealth held by families or individuals with wealth under $100,000.

### Country Percent change

<table>
<thead>
<tr>
<th>Country</th>
<th>Percent change</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHINA</td>
<td>42%</td>
</tr>
<tr>
<td>JAPAN</td>
<td>31%</td>
</tr>
<tr>
<td>SWITZERLAND</td>
<td>28%</td>
</tr>
<tr>
<td>RUSSIA</td>
<td>26%</td>
</tr>
<tr>
<td>Canada</td>
<td>24%</td>
</tr>
<tr>
<td>INDIA</td>
<td>24%</td>
</tr>
<tr>
<td>GERMANY</td>
<td>23%</td>
</tr>
<tr>
<td>HONG KONG</td>
<td>21%</td>
</tr>
<tr>
<td>australia</td>
<td>21%</td>
</tr>
<tr>
<td>SOUTH AFRICA</td>
<td>20%</td>
</tr>
<tr>
<td>SOUTH KOREA</td>
<td>20%</td>
</tr>
<tr>
<td>SWITZERLAND</td>
<td>19%</td>
</tr>
</tbody>
</table>

### Region Percent change

<table>
<thead>
<tr>
<th>Region</th>
<th>Percent change</th>
</tr>
</thead>
<tbody>
<tr>
<td>NORTH AMERICA</td>
<td>19%</td>
</tr>
<tr>
<td>EUROPE</td>
<td>12%</td>
</tr>
<tr>
<td>ASIA</td>
<td>10%</td>
</tr>
<tr>
<td>THE MIDDLE EAST</td>
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</tr>
<tr>
<td>LATIN AMERICA</td>
<td>6%</td>
</tr>
<tr>
<td>AFRICA</td>
<td>6%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>6%</td>
</tr>
</tbody>
</table>

### Methodology

The methodology for Wealth-X's data is based on the United Nations World Population Prospects. The report includes data on the wealth held by families or individuals with wealth under $100,000. The methodology is explained in the referenced publication.
Privacy is rapidly becoming an unattainable luxury

Most people value privacy and, understandably, prefer to keep information about their investments and assets to themselves. The unrealistic nature of this aspiration was highlighted early last year when nearly 12 million documents, including private financial information relating to more than 260,000 individuals and entities—the so-called Panama papers—were leaked to the media. It was, if proof were needed, that no data can be truly secure.

However, concerted international co-operation aimed at helping governments understand and track the global movement of wealth and assets may soon reduce such unofficial leaks redundant. The US started the process in 2010 with the Foreign Account Tax Compliance Act (FATCA), which led to a unilateral demand for appropriate tax is paid on wealth, wherever in the world it is created.

The US started the process in 2010 with the Foreign Account Tax Compliance Act (FATCA), which led to a unilateral demand for appropriate tax is paid on wealth, wherever in the world it is created. The CRS promises a more efficient means of ensuring that no data can be truly secure.

As investment portfolios become more global and wealth moves more rapidly we should not be surprised that the direction of travel is towards "big data" capture. As Ian Bremmer notes on page 9, governments will have to look for new metrics to accurately measure emerging wealth and economic trends which have significant political implications.

This points to an issue that runs throughout this year’s edition of The Wealth Report, which is that developed markets are seeing more politically inspired resistance to large inflows of capital from emerging markets. Witness responses in Vancouver, Hong Kong and more, as detailed on pages 38 and 19.

At the same time, emerging markets are concerned—increasingly so in the case of China—about outflow capital. This government desire to control wealth movements will inevitably necessitate a better understanding of where citizens hold their wealth.

Irrespective of current government initiatives, technological developments will make it increasingly difficult to hold assets and investments discreetly, even where the objective is to maintain privacy rather than to evade taxation. If the predictions on page 20 from one of our contributors, David Friedman, prove correct, developments will make it increasingly difficult to hold assets and investments discreetly, even where the objective is to maintain privacy rather than to evade taxation.

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